

## Part-A

# Foundations of Business

- Business, Trade and Commerce
- Forms of Business Organisations
- Private, Public and Multinational Company
- Business Services
- Emerging Modes of Business
- Social Responsibility of Business and Business Ethics





# EVOLUTION AND FUNDAMENTALS OF BUSINESS



## LEARNING OBJECTIVES

- History of Commerce in India
- Economic and Non-economic Activities
- Types of Economic Activities
- Objectives of Business
- Role of Profit in Business
- Classification of Business Activities
- Business Risks

## INTRODUCTION

All human beings are engaged in certain kinds of activities. Such activities are known as Human Activities. These activities are performed to satisfy the needs of human beings. Some of these activities are performed to earn money for livelihood and wealth whereas others are performed for one's self satisfaction.

The activities which are undertaken to earn money, derive Economic Benefits (Monetary Benefits) and the activities relating to personal satisfaction do not derive any economic benefit.

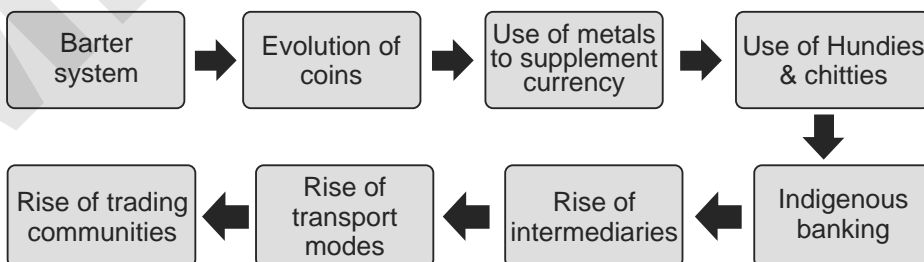
So, the activities which derive Economic Benefits are called Economic Activities and the rest of the activities are called Non-economic Activities.

Economic Activities are classified into three activities known as Business, Profession and Employment.

## HISTORY OF COMMERCE IN INDIA

### GROWTH OF TRADE AND COMMERCE

**Position of the Indian subcontinent in the world economy:** India was largest economy during the ancient and medieval period. In the write-ups of several travellers, the country was often referred to as *Svarnabhumi* and *Swarndweep*. The pre-colonial



period in Indian history was an age of prosperity. Europeans came here to plunder, but soon they realised it was more beneficial to trade in gold and silver. Despite the growth of commercial sector, India was far behind Western Europe in technology, innovation and ideas. The East India Company discouraged education and agriculture and promoted machines over manual skills; it all made India prosperous but people poor. It used revenue generated by the provinces under its rule to buy raw materials, spices and goods. This made India from the king of exporter of processed goods to the exporter of raw material and buyer of manufactured goods. Let's understand history of trade of commerce and trade from the ancient India till date with the reference of future growth in the following paragraphs:

### **(A) TRADE AND TRADING COMMUNITIES**

The term 'commerce' includes two terms: (a) Trade and (b) Auxiliaries to trade.

**Trade:** It refers to purchase, sale, transfer or exchange of goods and services for a certain price. It removes the hindrance of persons. Such persons are known as traders, middlemen or channels of distribution.

**History of trade:** Chronologically, Indian History can be classified into three periods: Ancient India, Medieval India and Modern India. Ancient India (prehistoric to AD 700); Medieval India (AD 700 to AD 1857) and Modern India (AD 1857 onwards).

**Trading during prehistoric period:** Trading became the principal facility of prehistoric people who would barter the things they had and take the services from one another. Historians date the history of commerce about 1,50,000 years ago. Introduction of the standardisation of currency removed the disadvantage of barter system and made it convenient to exchange of goods and services.

**Trade during ancient period:** During ancient times, India dominated the trade with Europe, Asia and Africa. India emerged number one country in trade, commerce and manufacturing activities and the supporting reasons are:

- **The Hindu mercantile community** was very enterprising.
- Indian traders were known for their entrepreneurship, trustworthiness and courage.
- Indian goods were known for their excellence worldwide.
- The goods manufactured by skilled artisans were unmatched at the global level.
- **Ancient Hindus** were highly skilled in building huge ships.
- The Hindu travellers had great knowledge of sea routes, monsoon winds and other navigational aspects.
- Fairs were organised in the different parts of the country where the people assembled for the purpose of exchanging merchandise as well as discussing religious and national issues.

**Trade during Medieval period:** This period largely belonged to merchants and other professional classes such as 'vaidyas' and 'hakims' (ayurvedic doctors) and other officials.

- Period between the 12th and 16th centuries remained prosperous. Muslim rulers propagated the growth of the various towns of the country during the 16th and 18th centuries.
- Among the merchant classes, some were specialised in wholesale trade and others in the retail trade. The wholesale traders were known as 'seth' and the retail traders were known as 'beoparis'.
- In south India, the community 'chettis' formed the trading class. Besides, there was a special class, 'banjaras', who specialised in the trading.
- The banjaras used to move from one place to another place, sometimes with thousands of oxen, laden with foodgrains, salt, ghee and other daily use stuff.
- The shroff used to help in transmitting money from one part of the country to the other by means of 'hundi'. The 'hundi' was a letter of credit payable after a certain period.
- The Mughals made roads, sarais, introduced uniform tax system and silver currency coin acceptable in India and abroad.
- Textiles, hardwood furniture, expensive carvings, carpets, cut stones, ivory, pearl fishing, art and crafts were the main goods exported from India.
- The Arabs were the first to trade with India. Then, **India started to trade with French, Dutch, Portuguese and English** in the seventeenth century which helped in the growth of India's trade.
- The **Indian traders** welcomed the foreign traders who **helped to establish a direct link between India and the European markets** where the commercial revolution was taking place.

### Trade in Modern India

(a) **During British Era:** The rise of the British power (1858 – 1947) in the mid-18th century badly damaged the prosperity of the country.

- The British imposed heavy duties on foreign trade and India faced deindustrialisation.
- They forced farmers to grow indigo and cotton.
- They did not allow Indians to set up factories and mills.
- Their main motto was to disrupt the foreign trade relations of India with the other countries.
- Indian economy remained stagnant during British rule at the same rate 1.2% as the population.
- Compared to the Mughal Era, India during the British colonial era had a lower per-capita income.

- There was large decline in the secondary sector and lower levels of urbanisation.
- India's share of the world economy and share of global industrial output declined significantly during British rule from 28% to 2%.
- India lost its supremacy in trade by the first half of the nineteenth century.
- India was converted into a country for production of raw materials and it was made a market for dumping of cheap machine-made goods produced in England.

**(b) Trade during post-independence period:** The economy was entirely made to move on trade. There were hardly any manufacturing units to meet the growing needs of the public. India needed a lot of food grains in the beginning of the independent era. India became heavily dependent on imports. Higher imports and negligible exports put serious pressure on the balance of trade. The main challenge before the country was to increase production capacity. For this, India had to import heavy plants and machinery. During the past couple of decades, India struggled to create manufacturing capacities across the board to be self-sufficient and it is still going on under 'Make in India' initiative.

The past couple of decades in the history of Indian Trade have seen the country struggle to create manufacturing capacities across the board to be self-sufficient.

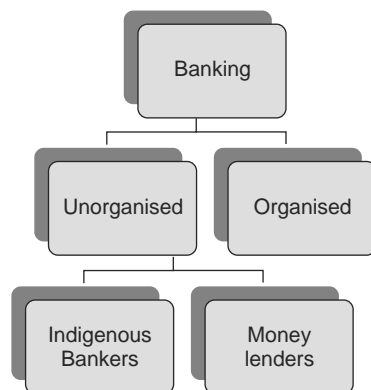
**(c) India today:** India is an over trillion dollar economy now. Tea, cereals, pulses, spices, dry fruits, Kashmiri carpets, petroleum products, gems, jewellery, machines, chemicals, iron, steels, clothing, khadi cotton, electronics, etc. are just a few of the famous commodities India exports to the world. Implementation of Economic Policy, 1991 has improved the trade of goods and services from the different countries of the world. The government has been focusing on to move the economy from underdeveloped to the status of being developed economy.

**Ease in doing business:** The government under the leadership of Mr. Narendra Modi has brought to the list of top 100 nations club in terms of ease in doing business in India as per World Bank report, 2018.

## (B) INDIGENOUS BANKING

**Banking:** India's banking is the oldest system of banking in the whole world. The ancient Indians had acquired a considerable scientific knowledge through indigenous banking. India made amazing progress in trade, commerce and banking of which we have documentary proofs in the writings of many of the foreign travellers. Banking can be broadly classified into two broad categories:

(a) Unorganised banking and (b) Organised banking. Further, unorganised banking can be classified into two categories: Indigenous bankers and moneylenders.



**Meaning of Indigenous banking:** It refers to banking functions performed by moneylenders, Sahukars, Shroffs, Seths (South India), Mahajans (North India), Marwaris, etc.

**Indigenous banker:** Indigenous banker is a person who grants loans to the needy out of their own funds and from the deposits collected from the general public. They are also known as financial intermediaries.

As per Indian Central Banking Enquiry Committee, 1931,

*‘Indigenous banker is an individual or private firm receiving deposits and dealing in hundies or lending money’.*

Indigenous bankers have always been the backbone of India’s financial prosperity. They are popular in villages and towns and perform combined functions of trading and banking. Indigenous bankers don’t have any formal banking education and they operate such banking system on the basis of their own experience or the knowledge gained from their ancestors. They maintain thorough knowledge about the history of their clients before they grant loans. As per different geographical locations, they are known with different names. It is usually family-owned business and at one time it met about 90% of financial requirements of rural India by providing finance to traders, industries and agriculturists.

**Hundies:** *Hundi is an unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order.* Hundies, being a part of the informal system, have no legal status and are not covered under the Negotiable Instruments Act, 1881. Though normally regarded as bills of exchange, they were more often used as equivalents of cheques issued by indigenous bankers.

[Source: RBI Currency Museum]

**Moneylender:** Indigenous banker is different from professional moneylenders whose primary business is not banking but moneylending.

#### **Features of indigenous banking:**

(1) **Easy to operate:** The indigenous banking can be easily operated as there is no legal formality to be performed and it enjoys greater flexibility to operate.

(2) **Accepting deposits:** Indigenous bankers accept deposits from the public and deal in hundies. Modern banking system does not deal in Hundies but in bills of exchange.

(3) **Advancing loans:** Such bankers advance loans to the needy against the security of personal assets like land, crops, goods, jewellery, etc.

(4) **Discounting hundies:** The indigenous bankers discount the hundies like banks discount bills of exchange.

(5) **Financing inland trade:** The indigenous help in trading of goods from one place to another place by providing finance to wholesalers and retailers.

(6) **Free from legal compliances:** Indigenous banking does not come under the purview of RBI and it is free to function as banking if it wishes.

### Evolution of banking in India

Globally, the story of banking has much in common, as it evolved with the moneylenders accepting deposits and issuing receipts in their place.

According to the *Central Banking Enquiry Committee (1931)*, moneylending activity in India could be traced back to the Vedic period, *i.e.* 2000 to 1400 BC. The existence of professional banking in India could be traced to 500 BC. Kautilya's *Arthashastra*, dating back to 400 BC, contained references to creditors, lenders and lending rates. Banking was fairly varied and catered to the credit needs of the trade, commerce, agriculture as well as individuals in the economy.

System of banking that was eminently suited to India's then requirements was in force in that country many centuries before the science of banking became an accomplished fact in England. An extensive network of Indian banking houses existed in the country connecting all cities/towns that were of commercial importance. They had their own inland bills of exchange or *hundis* which were the major forms of transactions between Indian bankers and their trans-regional connections. Banking practices in force in India were vastly different from the European counterparts. The dishonouring of *hundis* was a rare occurrence. Most banking worked on mutual trust, confidence and without securities and facilities, whereas these were considered essential by British bankers. In fact, Europeans are not the originators of banking in India.

The pre-independence period was largely characterised by the existence of private banks organised as joint stock companies. Most banks were small and had private shareholding of the closely held variety. They were largely localised and many of them failed. They came under the purview of the Reserve Bank that was established as a Central Bank for the country in 1935. The **indigenous bankers and moneylenders** had remained mainly isolated from the institutional part of the system.

**Excerpts:** Evolution of banking in India, RBI Publications, 8 September, 2008

### (C) RISE OF INTERMEDIARIES

**Intermediary:** It refers to a link between vendor and customer. Vendor may be seller of goods or service provider. It removes the hindrance of persons. They transfer the title of ownership from producers to the end users. Intermediary are the independent groups or organisations within the channel that make the products available for consumption. They are also known as middlemen or channels of distributions.

**Traditional intermediary:** Traditionally, intermediaries can be broadly classified as agents, wholesalers, distributors and retailers. A firm may have many intermediaries in its channels of distribution as it needs. It all depends upon the size of business operations. It may also have no intermediary and may sell its goods directly to the end user.

Agents → Wholesalers → Distributors → Retailers



## Modern Intermediaries - E-commerce and use of technology

Every addition of middlemen in the channel of distribution increases the cost of the product or service which is ultimately passed on to the customer in the form of price. Electronic commerce is playing a vital role in reducing the cost of transaction by eliminating the role of middlemen by automating the exchange of information directly between the producer and the user. Above all, the e-commerce and other digital technologies have given various options to buy, select and receive goods and services.

(1) **E-commerce:** Emergence of several e-commerce companies across the globe are connecting to the end users directly via providing online market place both to producers and buyers. E-commerce companies charge commission from the vendors listed on their website to sell their products and services while passing the ownership of goods to the users. **Examples:** Amazon, Flipkart, Paytm, Snapdeal, eBay.

(2) **Use of drones:** Drone is a flying robot and it is also known as unmanned aerial vehicles (UAVs). These are controlled remotely or can fly automatically through software working in conjunction with onboard sensors and GPS. Through this technology, the goods are being transported from one place to another. It helps in reducing the cost of delivery, saves lot of time from traffic congestion and eliminates the dependence of workforce.

**Example:** DHL and UPS. Courier companies are using drones to deliver cargo and parcels. Apart from these, several international and Indian start-ups are using drones to meet their clients and customers' requirements.

(3) **Artificial intelligence:** It is the intelligence performed by the machines in contrast to natural intelligence displayed by humans. Several Indian firms in education, healthcare, auto, banking and retail are using AI to transform their business operations.

**Examples:** Google's Translate API uses Machine Learning to deliver accurate translations. ICICI Bank has been experimenting with Robotics and AI to reduce the cost on mail response and customer care services. Business firms are predicting customers' behaviour as AI is capable of learning the latest fashion trends by analysing customers' social media feeds.

(4) **Insurance:** In insurance sector, the necessity of agents has been reduced by providing the facility to buy insurance policies online. Almost all banking and insurance companies are selling their policies online.

(5) **Financial markets:** The dependence on financial advisor has been reduced, as an investor can buy mutual funds and other securities online. Several banks and financial companies are selling mutual funds online.

(6) **Real estate:** The dependence on property dealers has been reduced as the prospective customers can book and buy the property by searching all relevant information available on the different websites. Example: 99acres.com, realtor.com, RealtyTrac, Apartment.com, Homes.com, etc.

Apart from the above, there are several categories of business and industries, where innovative intermediaries have reduced the role of traditional intermediaries. It is also a fact that the role of traditional intermediaries can be reduced, but can never be eliminated.

#### **(D) TRANSPORT**

**Meaning:** It is a system or means of conveying people or goods from place to another place. In terms of commerce, transport facilitates movement of raw material to the place of production and the finished goods from factories to the place of consumption.

**Contribution of transport to India's growth:** Transport infrastructure in India is better developed in the Southern and Southwestern parts of the country. It caters to the needs of 1.1 billion people as per World Bank report on India. It contributed about 5.5% of GDP as per recent reports.

**Road transport:** It contributes lion's share in the GDP. They carry about 85% of country's passenger and 60% of freight. 33% of India's villages do not have access to all-weather roads and most roads in India are narrow with poor surface quality.

**Railways:** It is the largest employer in the world under single management. It carried 19.8 million passengers and 2.4 million tonnes of freights a day.

**Ports:** It serves country's growing foreign trade in petroleum products, iron ore and coal. India has 13 major and 199 minor ports. India's seaborne foreign trade is 95% by volume and 67% by value. Average annual growth of port cargo has been about 10%.

**Aviation: India occupies 9th position in the world** with 8 airports including 15 international airports. Domestic passenger and freight growth over the last decade has been 14.2% and 7.8%, respectively with 15% annual passenger growth.

#### **Challenges in transport sector**

- (a) Congested roads with poor quality and maintenance
- (b) Poor access to rural areas
- (c) Capacity constraints for railways
- (d) Inefficient and congested ports

#### **(E) MERCHANT CORPORATIONS**

Merchant community got the power from the guilds (economic association of persons engaged in same business) who were strong enough to protect the interest of the traders. Such guilds form their professional code of conduct which even kings were supposed to accept and respect. Trade and industry taxes were also a major source of revenue. Customs duties varied according to commodities. Tariffs varied from province to province. The guild chief used to deal directly with the king or tax collectors and settle the market toll. The guilds were also religious in nature.

## (F) MAJOR TRADING CENTRES

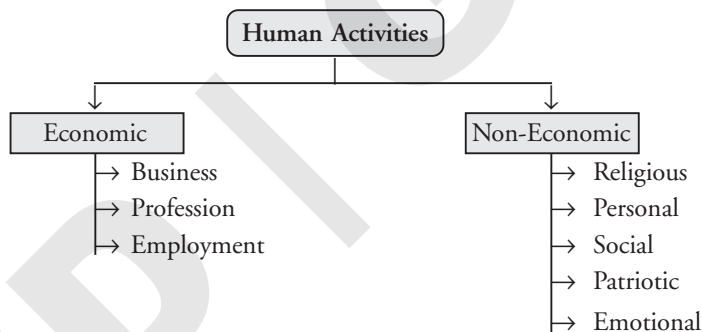
The following were the leading trade centres in ancient India:

- (a) **Patliputra:** It is at Patna now and was famous for export of stones.
- (b) **Peshawar:** Now, it is in Pakistan and was famous for exporting of wool and importing of horses.
- (c) **Taxila:** It was known as the city of financial and commercial banks. It served as a major centre between India and Central Asia.
- (d) **Indraprastha:** It was the commercial junction on the royal road.
- (e) **Mathura:** It was an emporium of trade and people here subsisted on commerce.
- (f) **Mithila:** The traders of Mithila traded at ports on the islands of Java, Sumatra and Borneo and established trading colonies in South China.

## (G) MAJOR EXPORTS AND IMPORTS

**Exports** mainly consisted of wheat, opium, indigo, spices, sugar, sesame oil, parrot, cotton, animal products, furs, horns, skins, tortoise shells, pearls, sapphires, quartz, crystal, copper, etc. **Imports** included animal products, horses, flax, Chinese silk, linen, wine, gold, silver, tin, copper, lead, etc.

## ECONOMIC AND NON-ECONOMIC ACTIVITIES



Human beings undertake two types of activities, one for the purpose of earning livelihood and others for the purpose of achieving personal satisfaction. The activities relating to former are known as Economic Activities and those relating to latter are known as Non-economic Activities.

**Economic Activities.** The activities which are undertaken to earn money for livelihood, to acquire wealth or to satisfy human needs are known as Economic Activities.

**Non-economic Activities.** The activities which do not relate to earning money or money's worth or the activities other than the economic activities are known as Non-economic Activities.

In a nutshell, the activities which are undertaken for personal or psychological satisfaction, social obligation, meditation, love, affection, pleasure, sympathy, religious obligation, etc., are known as Non-economic Activities.

## EXAMPLES OF ECONOMIC AND NON-ECONOMIC ACTIVITIES

Economic Activities (examples)	Purpose	Non-economic Activities (examples)	Purpose
1. Teacher teaching in the class.	To earn Salary.	1. Lady cooking food for her family.	Social Obligation
2. Doctor treating the patients.	To earn Fee.	2. Person worshipping the God.	Religious Obligation
3. Officers/Workers working in the organisation.	To earn Salaries and Wages.	3. Person doing meditation.	Personal Satisfaction
4. Lawyer filing case for his clients.	To earn Fee.	4. Person doing physical exercise.	Physical Fitness
5. Author writing a book.	To earn Royalty.	5. Person fighting for country	Patriotism

## DIFFERENCE BETWEEN ECONOMIC AND NON-ECONOMIC ACTIVITIES

Basis	Economic Activities	Non-economic Activities
1. Basis	These activities are undertaken to earn money.	These activities are undertaken for one's self satisfaction.
2. Return	Money and wealth.	Self accomplishment is achieved.
3. Purpose	These activities are undertaken to earn money.	These activities are undertaken to achieve self satisfaction, psychological, emotional needs and so on.
4. Types	Business, Profession and Employment.	Social Obligation, Religious Obligation, Personal Satisfaction, Physical Fitness, Patriotism.
5. Examples	(a) Teacher Teaching in a school. (b) Worker working in the factory. (c) Lawyer fighting the legal cases. (d) Doctor treating the patients.	(a) Helping the old aged persons. (b) Educating the poor children. (c) Subsidised or free food for the poor. (d) Running Non-Governmental Organisation (NGO).

## TYPES OF ECONOMIC ACTIVITIES

Economic activities can be classified into three categories:

1. Business
2. Profession
3. Employment

### BUSINESS

The term business is derived from the word 'busy'. Thus, business means being busy. "A *business* (also known as *enterprise* or *firm*) is an organisation engaged in an economic activity involving production, procurement, purchase and sale, exchange or distribution of goods and rendering of services to earn profits on regular basis with the presence of element of risk and satisfaction of customers to repeat the sales."



## PROFESSION

*“Profession is an economic activity which require specialised knowledge and skills which are applied by an individual in his work to earn his livelihood.”*

Those who are engaged in professions are known as professionals and they charge fee as their remuneration. By convention, it generally refers to intellectual pursuits which involve gaining a recognised qualification. Some professionals involve manual as well as by as academic aspects, e.g. engineering, science etc.

Most of the professions are governed by their respective professional bodies. *For example*, doctors are engaged in medical profession which is governed by the rules and regulations set by Medical Council of India. Similarly law profession is governed by Bar Council of India.

## EMPLOYMENT

*“Employment refers to the occupation in which the people work for others and get remunerated in the form of Wages and Salaries. It is a contract between two parties, one being the employer and the other being the employee.”*

*An employee* may be defined as: “A person in the service of another under any contract of hire which may be expressed, implied, oral or written, where *the employer* has the power or right to control and direct the employee regarding how the work is to be performed.”

Every employee is under the obligation to discharge the assigned duties and the employer’s instructions to the best of his or her abilities. The employer is under the obligation to protect the employee from harm or injury, and to provide fair compensation for any loss or damage resulting from any job-related accident.

It also contains term and conditions under which it can be lawfully terminated by either party and the correct procedure to be followed at the time of termination.

## Features of Business

**1. Business is an Economic Activity.** Business is an economic activity as it involves earning money for the purpose of livelihood and the generation of wealth.

Business may be undertaken at small scale by Individuals, at medium level by the Partnership Firms and at large scale by Co-operative Societies and Joint Stock Companies.

**2. Business involves Production or Procurement of Goods and Rendering of Services.** Raw material is converted into finished goods or finished goods are procured from the market to meet the demand of the consumers of such goods. Similarly, the services of various organisations take place like Banking, Insurance, Warehousing, Internet, Water, Electricity, etc.

3. **Business involves Sale or Exchange or Transfer of Goods and Services.** It is essential to sell the goods which have already been produced or procured or to render the services to the ultimate consumer in which business organisation deals in.

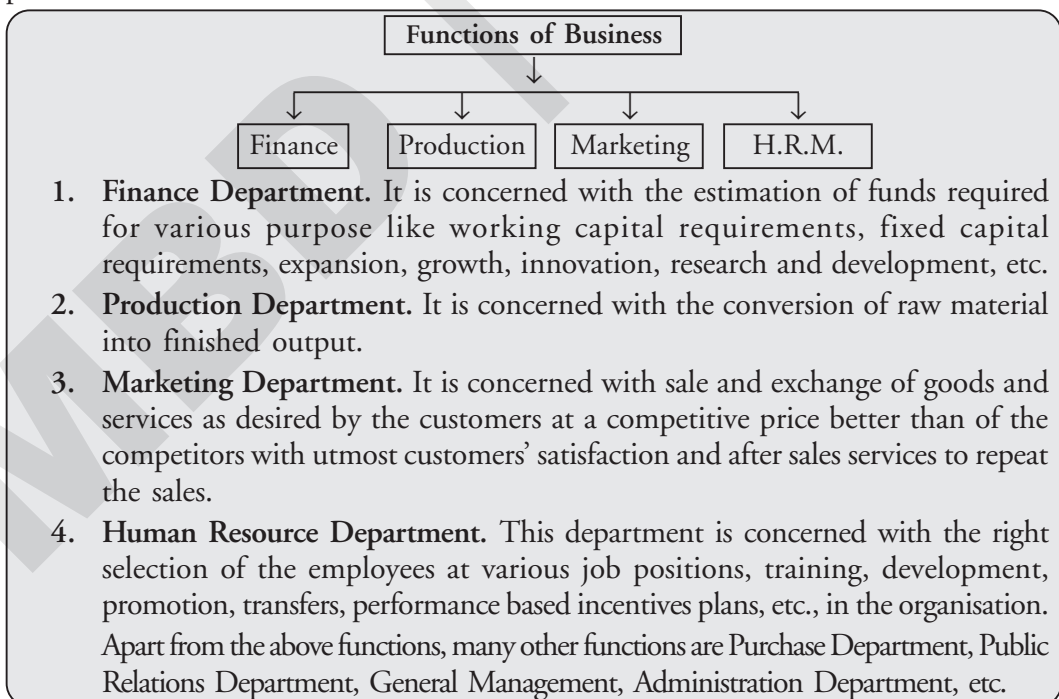
Business organisations may provide services like Banking, Insurance, Hospitality, Retailing, Aviation, Advertising and B.P.O. services. There must be the presence of both buyer and seller for the sale and purchase of goods and services. Goods may also bartered or exchanged for monetary value.

4. **Business involves Dealings in Goods and Services on Regular Basis.** There must be regularity in the production, procurement, sale, exchange or transfer of goods and services. One time transaction cannot be termed as a business activity.

**Example.** If a person sells his car (even new one) for monetary gain, the profit or loss arising from such dealing cannot be termed as a business activity.

5. **Profit Earning.** Profit is the reward by a business to the businessman for taking risk to start and continue the business. It is essential to cover the cost, grow, expand and to get recognition. Any activity with the aim of earning profit cannot be said to be a business. *Modern times demand earning the profit with the motto of service to society, conservation of natural resources to meet the future needs, etc.*

6. **Uncertainty of Returns/Element of Risk.** A business always involves an element of uncertainty whether it will earn sufficient or desired profit to cover its cost, to expand or incur losses. It is due to the presence of external factors which are beyond the control of every businessman like change in the taste of customers, government policies, political instability, strikes, lockouts, increased competition, change in the methods of production, etc.



## Features of Profession

1. **Body of Knowledge.** Every recognised profession is based on specialised knowledge, principles, concepts and theories relating to that field which is acquired by the professionals through adopting career in a particular profession in the universities, colleges and institutes.

**Example.** Law Profession to become a lawyer, Medical Profession to become a doctor and Accountancy Profession to become an Accountant.

2. **Formal Methods of Training.** To achieve speciality and perfection in a particular profession, professional bodies arrange for practical training to apply theory in real life situations. For example, students aspiring for the Accounting Profession have to undergo compulsory practical training organised by Institutes for Chartered Accountants of India and so on.

3. **Fee as Remuneration.** Generally, professionals charge a fee as their remuneration in return of their services offered to their clients. Professionals may earn salary if they are employed under the terms of employment.

Now-a-days, many professionals working in well reputed firms are setting up their own offices and in return of their services, they are charging fee as their remuneration like the professionals do. No doubt, it has become a B.P.O. (Business Process Outsourcing) profession.

4. **Existence of Ethical Code of Conduct.** In most of the professional fields, their governing bodies and associations prepare a set of rules and regulations to be followed by their members compulsorily while serving their clients.

**Example.** Indian Medical Association prepares the code of conduct for doctors, Indian Bar Council prepares the code of conduct for advocates. Similarly, All India Management Association has prepared a set of rules, code of conduct for ethical behavior of managers, but the membership of this body or following its code of conduct is not compulsory for managers.

## Features of Employment or Service

1. **Commencement.** Services can be commenced by accepting a job offer, appointment letter as well as the terms and conditions of the contract letter.

2. **Relationship.** The person (individual or organisation) who appoints the applicant for the job is known as an *employer* and the person hired for the job is known as an *employee*.

3. **Qualification.** Qualification is required as per the nature of the job. Employees can be unskilled, semi-skilled and skilled.

4. **Reward of Services.** Employees are remunerated/rewarded in the form of wages and salaries for their contribution or services to the organisations.

5. **Risk.** Loss of job is involved if the performance does not match the expectations of a job concerned and least risk is involved as the employees are not required to contribute any capital.

## DIFFERENCE BETWEEN BUSINESS, EMPLOYMENT AND PROFESSION

Basis	Business	Profession	Employment
1. Meaning	An organisation engaged in an economic activity involving production, purchase, sales, exchange and transfer of goods and services.	Occupation which involves application of personalised skills and rendering expert services.	Employment refers to the occupation in which the people work for others.
2. Mode of Establishment	With the help of necessary capital and fulfillment of legal formalities, if necessary.	With the help of certificate or degree from the competent authority.	With the help of appointment letter, contract letter containing terms and conditions relating to employment.
3. Nature of Work	Production, purchase, sale, exchange or transfer of goods and services.	Specialised, personalised and professional services.	As per the terms and conditions of letter of contract.
4. Qualification	No formal qualification is required.	Professional qualification in the form of degree, diploma or certificate.	Based on the nature and job profile.
5. Reward or Return	Profits as reward for taking risks and bearing losses.	Fee is the reward in most of the cases.	Remuneration in the form of wages, salaries, monetary and non-monetary rewards (incentives).
6. Capital Investment	Depends upon the nature of product and size of the business.	Limited or dependent upon the expansion of the establishment.	No capital is required.
7. Risk	Profits are uncertain and irregular due to presence of risk.	If the service lacks quality and satisfaction of the customers.	If the terms and conditions are not met both by employer and employees as agreed upon.
8. Transfer of Interest	Possible subject to certain legal formalities as necessary. (Ref. Ch. No. 2)	Not possible as it involves personalised services.	Not possible.
9. Code of Conduct	Some business in a particular industry may have to follow the norms set by their representative association, Government Chamber of Industries and Commerce, etc.	Ethical code of conduct is compulsory to be followed as set by professional bodies of which he/she/organisation is a member.	Terms and conditions agreed upon at the time of appointment set by the employer and fulfillment of commitments as committed by the employer too.



## OBJECTIVES OF BUSINESS

Objective is what every business organisation wishes to achieve in return to what they do. Earning profit is the main objective of every business enterprise to survive, expand, diversify, etc., but due to so much stiff competition in the market, business organisations cannot think to survive without considering other objectives like social objectives, individual objectives, corporate social responsibility, etc.

Objectives are the ends towards which a business organisation needs to be directed for achieving multiple objectives. These multiple objectives can be classified into two broad categories.

A. Economic Objectives

B. Social Objectives

### A. ECONOMIC OBJECTIVES

The important economic activities are as follows:

1. **Profit Earning.** Profit is the excess of revenue over the cost of operation. It is the reward to the businessman for taking risks while running the business into losses and inadequate profits. Profits are necessary to survive, expand and diversify.

2. **Market Standing.** An organisation is able to create its market standing when it is able to win over its competitors by providing qualitative goods at competitive prices. Market standing means an organisation is having stronger footing and larger share for its products in the market. The purpose of market standing is to increase the customers and reduce the competitors.

3. **Innovation.** Innovation means introduction of new ideas or methods through which something is done or made. Innovation can be achieved as follows:

(a) By innovating the products or services being offered in the market.

(b) By innovating the skills and activities needed to supply the products and services.

4. **Productivity.** It refers to the comparison of value of outputs with their value of inputs. Productivity aims at the best possible use of available resources in an organisation.

### B. SOCIAL OBJECTIVES

1. **Manager's Prosperity and Development.** Success of a business organisation largely depends upon the quality of management which can be maintained with the help of conducting various seminars, workshops, technical and managerial programs, etc. It would help them to innovate the existing products and gain their market value.

2. **Workers' Performance and Attitudes.** Desired performance of the workers may be achieved if the employees are properly remunerated by making the provision of working environment, healthy atmosphere, working culture, amenities and benefits, etc. They need to be motivated, trained and developed as per the requirements in the industry.

3. **Social Responsibility.** Business organisations may fulfill their social responsibility by providing employment to the needy, constructing hospitals, orphanages, schools, conserving natural resources, opening rehabilitation centers and other activities for social cause.

4. **Qualitative Products at Competitive Prices.** Qualitative product means the product consisting of features as per the need of the customers, durability in terms of its life and safety in terms of any accident whereas competitive price means availability of product at a price not more than that of competitors.

## ROLE OF PROFIT IN BUSINESS

Every business is started to earn profit as it is essential for its survival and growth. Profit earning should be regarded as the main objective of any business unit. The need of profit in business is to cover the cost of production and also create a surplus for expansion and diversification. The survival of the business will be a day-dreaming affair in the absence of profit.

A business should not have the objective of maximisation of profit because it leads to exploitation of the consumers. Profit provides stimulus to human efforts in undertaking business activities.

## REASONS FOR EARNING PROFIT

Some of the various reasons for earning profit are as follows:

1. **Growth.** Profit is essential for the growth of business enterprise. Profit is regarded as the main source of growth for business enterprise because it provides finance for expansion and diversification. The business can be continued when there is a fair amount of profit.

2. **Survival.** Profit is essential for the survival of the business enterprise because the existence of business unit can not be seen in the absence of profit. The presence of profit enables a business organisation to meet various expenditures and to face adverse situations such as the stage of recession.

3. **Individual Needs.** Individual needs relate to the needs of the employees in the organisation. Good amount of profits is also the solution to the problems relating to hike in wages, salaries and incentives of the employees.

4. **Social Needs.** Today, in the competitive world, business organisations are spending huge amount of profits on the upliftment of the society, education, food, shelter and so on. These business houses are working with NGOs and government for such cause. This all is possible if the business organisations earn a good amount of profit. Now, certain part of profit is mandatory to be spent on society as corporate social responsibility in case of companies.

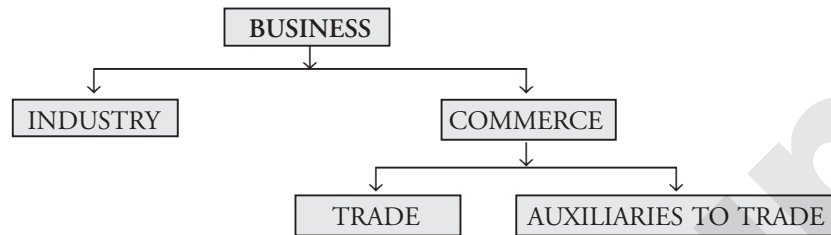
5. **Measure of Efficiency.** Profit is regarded as a good measure of efficiency of the organisation because the performances of a business unit is judged from the angles of profit. Due to this reason, it has been rightly observed that profit is the acid test of the business unit. It is regarded as an index of a business' success.

6. **Enhances Creditworthiness.** Enterprises which earn huge amount of profits are in a quite good position to attract banks, financial institutions and suppliers to raise loans.

7. **Risk Bearing.** In the initial years of operation and competition, business organisations have to bear losses for a longer period of time. Earning and retention of profits is essential to bear the brunt of losses and for the cost of staying in business environment.

## CLASSIFICATION OF BUSINESS ACTIVITIES

Business activities are broadly classified into two categories: Industry and Commerce. Commerce can be further sub-divided into trade and auxiliaries to trade.



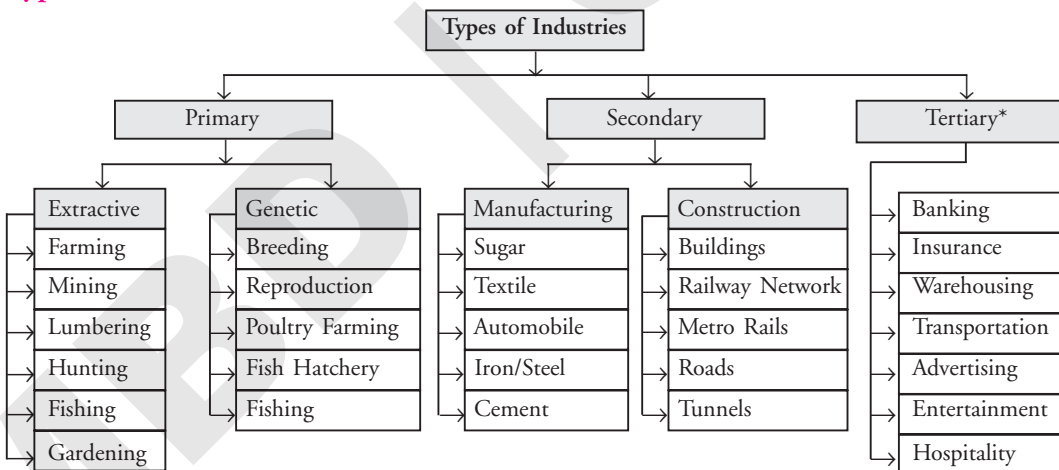
### INDUSTRY

*It refers to an activity which is related to extraction, production, breeding and processing of raw materials into goods and rendering of services.*

Industries create form utility by converting material into intermediate goods for further processing or finished goods for final consumption.

Industries also relate to a group of firms producing the same kind of product or rendering of services like Automobile Industry manufacturing two wheelers, three wheelers, trucks, cars, tempos, etc., Aviation Industry running various airlines, Hospitality Industry covering various hotels, motels, restaurants, resorts, Tourism Industry and so on.

### Types of Industries



\*Also known as 'Aids to Trade', 'Services to Industries', 'Intangible Goods' or 'Service Industry'. Tertiary sector of industries involves provision for services to other businesses as well as final consumers.

Industries can be classified into three major categories:

- A. Primary Industry
- B. Secondary Industry
- C. Tertiary/Service Industry

**A. Primary Industries.** These industries relate to extraction of natural resources, production, reproduction of plants, trees, animals and species, development of living organisms, etc.

These industries can further be classified into two categories:

**1. Extractive Industries.** These industries relate to discovery and extraction of natural resources from the earth, sea and air. The products of these industries are either directly consumed like fish, coal, fuel or are used as inputs/raw materials in other industries like sand, oil, ores, metals, etc.

**Examples.** Farming, Mining, Lumbering (cutting down trees and prepare them as marketable timber), Hunting, Fishing, Sand from Sea Coast, Natural Gas, etc.

**2. Genetic Industries.** These industries relate to breeding of plants and animals, reproduction and multiplication of species, development of living organisms, poultry farming, fish hatching, animal husbandry, dairy farming, etc.

**Examples.** Nurseries multiplying plant and animal species, Poultry Farms breeding birds like hens and ducks, Pisciculture growing fish in ponds, canals and rivers, Dairy Farming for raising milk products from cattle (like cows, sheep, goats and buffaloes).

**B. Secondary Industries.** These industries relate to production or conversion of raw material extracted under primary industries into finished goods for final consumption or for the future processing by other industrial units.

**Example.** Mining of gold or iron ore come under the category of primary industries whereas using gold to manufacture jewellery or using iron ore to manufacture steel come under the category of secondary industries. These are of two types:

**1. Manufacturing Industries.** These industries relate to conversion of raw material or semi-finished goods into finished goods as consumer goods for final consumption or producer's goods to be used as machine or tools by manufacturing industries.

Manufacturing industries can be classified into four categories:

(a) **Analytical Industries.** These industries extract different materials from one material like various products can be extracted from crude oil such as petrol, kerosene, gasoline, lubricants and coke and electricity from coal.

(b) **Synthetical Industries.** These industries combine various materials to form a single product like cement is manufactured with the help of limestone, gypsum and coal.

(c) **Processing Industries.** In such industries, raw material passes through various stages/ processes to form a single product like manufacturing sugar from sugarcane, paper and furniture from wood, etc.

(d) **Assembling Industries.** Such industries assemble different finished components to make a single finished product like electronic gadgets.

**2. Construction Industries.** These industries are involved in the construction of infrastructure of the nation like construction of buildings, bridges, railways network, metro rail, roads, and tunnels.

**C. Tertiary Industries.** These industries are also known as service industry, intangible goods and aids to trade. This sector provides services to business organisations, industries, trade and even the final consumers. This sector produces intangible products instead of tangible products. This sector provides services to primary as well as secondary sector. This sector is the backbone of modern industrial system. These services include banking, insurance, warehousing, transport, advertising, marketing, customer care services, human resource services, internet services, etc.

### Changing Role of Service Sector

The service sector consists of the 'soft' parts of the economy, i.e., activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability. The basic characteristic of this sector is the production of services instead of end products. Services (also known as intangible goods) include attention, advice, experience, and discussion.

There has been a substantial shift from the primary and secondary sectors to the tertiary sector in industrialised countries. This shift is called *tertiarisation*. The tertiary sector is now the largest sector of the economy in the Western world, and is also the fastest-growing sector.

## COMMERCE

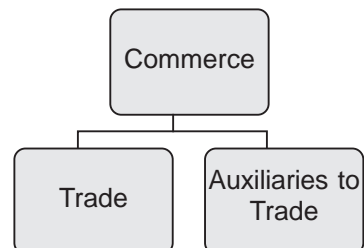
It includes buying and selling of goods (known as trade) and supporting services facilitating to buying and selling of goods (known as aids to trade). It is the link between producer and consumers. Commerce includes removal of all hindrances in the process of exchange of goods.

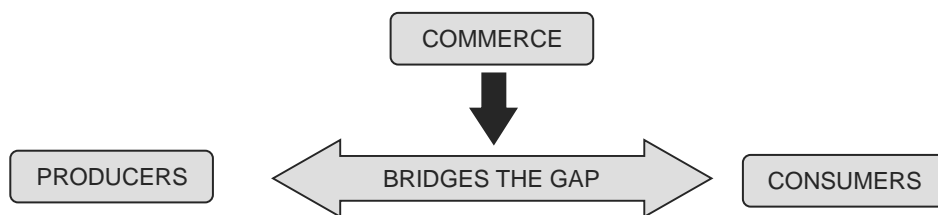
### Functions or Utilities of Commerce /Activities to Remove Hindrances in Commerce

Commerce is a necessary link between producer and consumers. It bridges the gap between the two by providing various services/utilities which are also known as functions of commerce listed below:

#### 1. Commerce removes Hindrance of Person:

Producers and consumers are generally located at different places. Commerce removes the hindrance of person with the help of channels of distribution in the form of wholesalers, agents, distributors and retailers who help to make the goods available by transferring the ownership rights from the producers to the ultimate consumers.





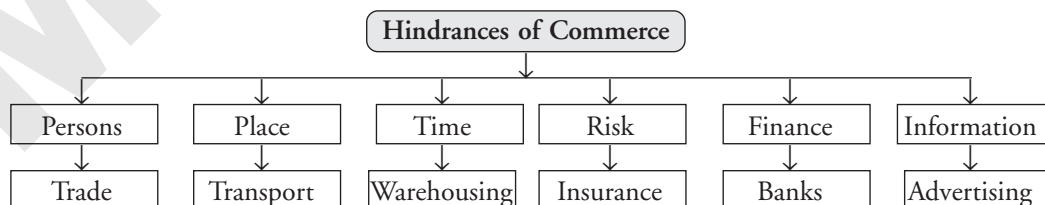
2. **Commerce removes the Hindrance of Place:** As the place of production is different from the point of consumption, commerce removes the hindrance of place with the help of transportation by bringing the goods from the place of production to the market for sale.

3. **Commerce removes the Hindrance of Time:** Commerce removes the hindrance of time with the help of warehousing and storage facilities as the goods are generally produced well in advance with the anticipation of demand.

4. **Commerce removes the Hindrance of Risk:** All business activities are exposed to certain amount of risks due to a variety of human and natural causes in the form of strikes, competition, bad debts, change in technology, fluctuations of exchange rates, floods, famines, etc. Such risks are covered with the help of insurance companies which take a nominal amount of premium to compensate insured value plus vested bonus (in case of life insurance) and actual loss of goods and property (in case of fire and marine insurance).

5. **Commerce removes the Hindrance of Finance.** Business organisations need funds for various purpose like working capital (cash in hand, bank balance, stock, etc.), fixed capital (land, building, plant, machinery, etc.), growth, expansion, research, modernisation, diversification, technological upgradation, etc. Such financial requirements are met by the banks and financial institutions by providing multiple banking facilities.

6. **Commerce removes Hindrance of Information.** Advertising, communication, media, internet, public relations, sales representatives, channels of distributions, etc., make consumers aware about the availability and essential information relating to the product.



## MAKE IN INDIA

The Make in India initiative was launched by Prime Minister on September 25, 2014, to encourage multinational companies to manufacture their products in India.

### Advantages and disadvantages of Make in India

1. Creation of Job Opportunities
2. Increase in GDP
3. Strengthen the Value of Rupee
4. Increase in Brand Value
5. Upgradation of Technology
6. Ease of Doing Business
7. Availability of Young Minds
8. Flow of Capital



**Example 1:** Under the initiative 'Make in India', brands such as Xiaomi, TCL, Skyworth, BPL, Thomson, etc. used to import televisions for sale in the country, but now they have started local production at the component stage. Top brands like Sony and LG are now expanding production of televisions in India at the parts stage. Recently, 'Apple' and Samsung have started producing their products in India. (Source: The Economic Times, September 10, 2018)

**Example 2:** The government has moved to restrict the import of non-essential commodities. The government also decided to increase import duty from 10% to 20%. It will help stabilise rupee value, boost Make in India and make imported goods dearer. (Source: The Economic Times, September 17, 2018)

'Make in India' initiative is based on the following four pillars:

(a) **New Process:** 'Ease of doing business' has been promoted as the new process like to de-license and de-regulate the industry during the entire life cycle of a business.

(b) **New infrastructure:** The government has planned to develop industrial corridors and smart cities to provide infrastructure based on state-of-the-art technology with modern high-speed communication and integrated logistic arrangements.

(c) **New Sectors:** 'Make in India' has identified 25 sectors in manufacturing, infrastructure and service activities. FDI has been opened up in defence production, construction and railway infrastructure in a big way.

(d) **New Mindset:** The government intends to change the mindset of the industry from being regulator to facilitator. The government wishes to assure the industry to work as partner for the economic development of the economy.

Watch video released by the Government of India: <https://goo.gl/FxbNdZ>.

## TRADE

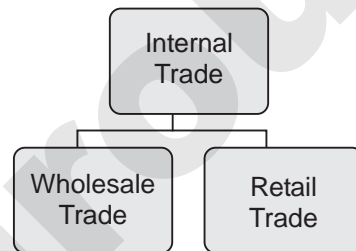
*It refers to the sale, purchase, transfer or exchange of goods and services for a certain price.* Trade removes the hindrance of persons. It helps in transferring the ownership rights from the producers to the consumers. They are also known as middlemen or channels of distribution. In the absence of such traders, it would be impossible for any business organisation to produce the goods at a mass scale and reach the desired customers.

### Types of Trade

Trade can be classified into two broad categories viz. Internal Trade and External Trade.

**A. Internal Trade.** It is the trade which is undertaken within the geographical limits of a country. It is also known as Domestic Trade.

**1. Wholesale Trade.** It involves the purchase and sale of goods relating to one or limited line of products. The persons (individuals or organisations) conducting such trade are known as Wholesalers who buy the goods in large quantities directly from the producers and sell them in small quantities to different retailers.



They act as a link between producers and retailers, communicate all necessary information regarding the product to the retailers and send the feedback and grievances of consumers relating to goods received from retailers to the producers. Such feedback helps the producers to modify/upgrade the existing products and innovate the products to meet future needs and satisfy the customers.



**2. Retail Trade.** It involves purchase and sale of goods relating to variety of products. The persons involved in this trade are known as retailers who buy the goods from different wholesalers and sell them directly to the consumers.

They act as a link between wholesalers and the ultimate consumers. They buy different products from different wholesalers as per the requirement of consumers.

Retail trade represents the final stage in the distribution chain where goods are transferred from the hands of manufacturers or wholesalers to the final consumers or users. This branch of business is devoted to the sale of goods and services to the ultimate consumers for their personal and non-business use.



**B. External Trade.** It is also known as foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries.

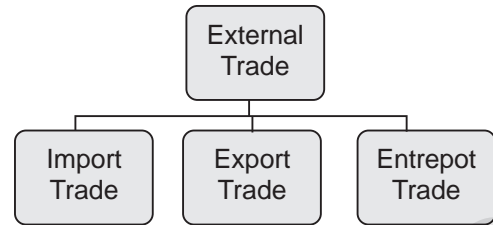


It is classified into three categories:

**1. Import Trade.** When the persons (individuals or organisations) buy goods or avail services from the rest of the world for the domestic consumption in the home country, it is known as import trade.

**2. Export Trade.** When the goods are sold or services are made available to the rest of the world by the persons (individuals or organisations) of one country, it is known as the export trade.

**3. Entrepot/Re-export Trade.** When the goods are purchased (imported) by the persons (individuals or organisations) in one country and are sold (exported) by such persons to the rest of the world, it is known as Entrepot Trade.



### AIDS / AUXILIARIES TO TRADE

Tertiary sector of industries is also known as auxiliaries to trade which provides its services to the business sector as well as the ultimate consumers. To the business sector, they provide the services in the form of banking insurance, warehousing, transportation, communication, etc.

The following are the main services which facilitate the manufacturing of goods and aid the trade in moving the goods from one place to another.

**1. Transport.** As the place of production is different from the place of consumption, transport facilitates movement of raw material to the place of production and the finished products from factories to the place of consumption.

**2. Communication.** With the help of postal services, internet facilities, courier services, customer care services, telephone services, etc., the manufacturers, traders, wholesalers, retailers, other channels of distribution and customers can exchange the relevant and significant information for the need of one another.

**3. Banking and Finance.** Banks and financial institutions help the business organisation to overcome the problem of finance as it is needed at every stage of business. Banks extend loans, advances, overdraft and cash credit facility to the business organisations.

Bank remittances the money from one place/person/organisation to another place/person/organisation. With the help of cheques, demand drafts, by discounting bills of exchange and providing letter of credit for international business, banks help the business organisations to function smoothly.

**Online Services** provided by the banks include, Internet Banking, Mobile Banking, Share Trading, Bill Payments, Money Transfer, E-Tax Payments, Security Alerts (SMS), Credit Card Facility, Debit Card Facilities, etc.

**Note:** Visit the website of any Bank for more details.

**4. Insurance.** Business organisations are always exposed to various kinds of risks. Such risks are in the form of thefts, fire, human errors, loss of life of the employees at

work or the losses due to natural calamities, etc. Such risks cannot be anticipated and prevented but can be reduced to a great extent by paying nominal amount of premium and in return the insurance companies compensate the actual loss to the goods and property and insured value of life of the deceased.

**5. Warehousing.** Goods are produced well in advance before the demand for such goods arises in the market. The place of production is different from the place of distribution. So, the goods are required to be stored. For such purposes warehouses and storages can be hired or owned.

Such warehouse owners provide all modern facilities which are required after the goods are produced such as packing, packaging, labeling, branding, marking, grading, etc.

**Note:** *Packing refers to the protection of goods from air, moisture, dust, etc., whereas packaging refers to container or box which is beautified with all necessary information relating to the product to persuade the customers to buy.*

**6. Advertisement.** Advertisement helps the customers know about the availability of goods and services being produced and provided by the manufacturers. With the help of advertisement information, we come to know about the new products being launched in the market with their features, price, brand name, name of the manufacturers and other important information which convince the prospective buyers to make the deal.

Through advertisement, the sellers try to persuade the customers to buy the product, adopt different sales promotion techniques for the ultimate consumers and trade promotion techniques for the traders.

## BUSINESS RISKS

Business risks refer to possibility of inadequate profits or even losses due to uncertainties or unexpected events which are beyond the control of the business organisations.

Possibilities	Meaning	Examples
Uncertainties	Lack of knowledge, i.e., what is going to happen in future.	<ol style="list-style-type: none"> <li>1. Decline in the demand of a product.</li> <li>2. Change in the tastes and preferences.</li> <li>3. Competition due to entry of more firms in the same industry.</li> <li>4. Change in technology.</li> </ol>
Unexpected events	Event which may happen at any time.	<ol style="list-style-type: none"> <li>1. Damage of goods in transit.</li> <li>2. Natural calamities.</li> <li>3. Strikes and lockouts.</li> <li>4. Power failure.</li> </ol>

## TYPES OF BUSINESS RISKS

Speculative Risks	Pure Risks
<p>Such risks involve both possibilities of gains as well as losses. Favourable market conditions are likely to result in gains whereas adverse ones may result into losses.</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"><li>(a) Change in market conditions.</li><li>(b) Change in demand and supply.</li><li>(c) Change in prices.</li><li>(d) Change in taste of customers.</li></ul>	<p>Such risks involve only the possibility of losses or no loss. Their occurrence may result in loss, whereas non occurrence may result in absence of loss, instead of gains.</p> <p><b>Examples:</b></p> <ul style="list-style-type: none"><li>(a) The chance of fire.</li><li>(b) The chances of theft.</li><li>(c) Chances of strikes and lockouts.</li><li>(d) Losses due to natural calamities.</li></ul>

## NATURE OF BUSINESS RISKS

1. **Risks are Uncertain.** Uncertainty refers to the lack of knowledge, i.e., what is going to happen in future. Change in demand of customer and change in technology are the examples of uncertainties.

2. **Risks are Unexpected.** It refers to a situation which may take place at any moment of time or the events which are contingent\* in nature like natural calamities, strikes, lockouts, etc.

\*means uncertain about an event.

3. **Essential part of Business.** Every business organisation has to face certain amount of risk. No business organisation can exist without the element of risk. Risks can be minimised but not eliminated. Degree of risk depends mainly upon:

- (a) **Nature of Goods and Services.** Like fashion industry has to face high risks due to rapid changes in the taste of customers and communication industry faces risks due to advancement in technology.
- (b) **Size of Business.** Large business organisations have to face high risks and small business organisations have to face low risks.

## CAUSES OF BUSINESS RISKS

The following are the main causes of business risks:

1. **Natural Causes.** Such causes relate to natural calamities and disasters in the form of earthquakes, famines, heavy rains, lightening, drought, etc., which may result in heavy losses to life and property, income of the business, etc.

2. **Human Causes.** Such causes relate to the carelessness in handling the work situations, mishandling of tools and machinery, irresponsible behaviour, dishonesty on the part of employees, negative attitudes towards superiors, stoppage of work, lockouts, strikes, power failure, riots and mismanagement, etc.

3. **Economic Causes.** Such causes relate to type of economy and its conditions. Such causes are purely monetary in nature. Examples of such causes are uncertainties relating to change in the demand for goods, competition, prices, collection of dues

from the customers, changes in the technology and methods of production, changes in the government's policy, changes in exchange rates, rise in the interest rates, levy of taxes, rises in the taxes, etc.

These elements are related to government affairs *e.g.*, type of government in existence, its attitude towards various industries, etc. The political environment has immediate and great impact on the business transactions.

**4. Legal Causes.** Legal environment prescribes the rules/laws passed by the Parliament, State Assembly, Court judgments, etc. Decisions rendered by various commissions and agencies pose the risks before the business organisations.

**5. Technological Causes.** It includes all innovations, discoveries and machineries which management uses to improve the quality of the product. In order to survive in the market, the business organisation must monitor the technological changes taking place.

### Methods to deal with the risks

Business risks cannot be eliminated but can be minimised with the help of certain precautions and measures such as follows:

- (a) Do not enter into too many transactions.
- (b) Take preventive measures like fire fighting devices to reduce risk.
- (c) Take insurance policy to transfer risk to the insurance company.
- (d) Assume risk by making provisions in the current earnings as in the case of provision for doubtful debts.
- (e) Share risks with other enterprises as manufacturers and wholesalers who may agree to share losses which may be caused by falling prices.

### GLIMPSES

- **Economic Activities.** The activities which are undertaken to earn money and wealth.
- **Non-economic Activities.** The activities which are undertaken for personal satisfaction and are not related to money or money's worth.
- **Business.** It is an economic activity which involves production, procurement, purchase and sale, exchange or distribution of goods and rendering of services to earn profits on regular basis.
  - **Characteristics of Business**
    1. Business is an economic activity.
    2. Business involves production or procurement of goods and services.
    3. Business involves sale or exchange or transfer of goods and services.
    4. Business involves dealings in goods and services on regular basis.
    5. Profit earning.
    6. Uncertainty of returns/element of risk.
  - **Profession.** Profession is a well defined body of knowledge, which is learned intellectually. Entry is restricted and motive is to serve others.
    - **Characteristics**
      1. Body of Knowledge.
      2. Formal Methods of Training.
      3. Fee as Remuneration.
      4. Existence of Ethical Code of Conduct.

- **Employment.** It is a contract between two parties, one being the employer and the other being the employee in which latter works for the former to earn wages or salaries.
  - **Characteristics of Employment or Service**
    1. Commencement
    2. Relationship
    3. Qualification
    4. Reward of Services
    5. Risk
- **Objectives of Business**
  - **Economic Objectives**
    1. Profit Earning
    2. Market Standing
    3. Innovation
    4. Productivity
  - **Social Objectives**
    1. Manager's Prosperity and Development
    2. Workers' Performance and Attitudes
    3. Social Responsibility
    4. Qualitative Products at Competitive Prices
- **Industry.** It refers to an activity which is related to extraction, production, reproduction, breeding, processing of raw materials into goods and rendering of services.
  - **Primary Industries.** These industries relate to use of natural resources.
    1. **Extractive industries.** These industries relate to discovery and extraction of natural resources from the earth, sea and air.
    2. **Genetic Industries.** These industries relate to breeding, reproduction, multiplication and development of living organisms.
  - **Secondary Industries.** These industries relate to production or conversion of

raw material into finished goods for final consumption.

1. **Manufacturing Industries.** These industries relate to conversion of raw material or semi-finished goods into finished goods.
    - (a) Analytical Industries
    - (b) Synthetic Industries
    - (c) Processing Industries
    - (d) Assembling Industries
  2. **Construction Industries.** The industries relating to basic infrastructure of a nation.
- **Tertiary Industries.** These industries are also known as service industry, intangible goods, aids to trade and auxiliaries to trade. This sector provides its services to business organisations, industries, trade and even the final consumers.
- **Functions or Utilities of Commerce**
    - Commerce removes Hindrance of Person
    - Commerce removes the Hindrance of Place
    - Commerce removes the Hindrance of Time
    - Commerce removes the Hindrance of Risks
    - Commerce removes the Hindrance of Finance
    - Commerce removes Hindrance of Information
  - **Types of Trade**
    - **Internal Trade.** It is the trade which is undertaken within the geographical limits of a country.
      1. **Wholesale Trade.** The trade which is conducted for one or limited line of products to sell to the retailers by the persons known as wholesalers.
      2. **Retail Trade.** The trade which is conducted for variety of products to sell to the ultimate consumers by the persons known as retailers.

□ **External Trade.** The trade which is conducted between two or more nations.

1. **Import Trade.** The trade in which the persons buy the goods or avail services from the rest of the world.

2. **Export Trade.** The trade in which goods are sold or services are made available to the rest of the world.

3. **Entrepot/Re-export Trade.** The trade in which the goods are purchased (imported) from one country and are sold (exported) to another country.

● **Aids/Auxiliaries to Trade**

Tertiary sector of industries is known as auxiliaries to trade. It is also known as service industry which provides its services to the business sector as well as the ultimate consumers. These are:

1. Transport
2. Communication
3. Banking and Finance
4. Insurance
5. Warehousing
6. Advertisement

## OBJECTIVE TYPE QUESTIONS

### MULTIPLE CHOICE QUESTIONS (MCQs)

1. Which of the following does not characterise business activity?  
(a) Production of goods and services  
(b) Presence of risk  
(c) Sale or exchange of goods and services  
(d) Salary or wages
2. Which of the following broad categories of industries covers oil refinery and sugar mills?  
(a) Primary  
(b) Secondary  
(c) Tertiary  
(d) None of these
3. Which of the following cannot be classified as an auxiliary to trade?  
(a) Mining  
(b) Insurance  
(c) Warehousing  
(d) Transport
4. The occupation in which people work for others and get remunerated in return is known as:  
(a) Business  
(b) Employment  
(c) Profession  
(d) None of these
5. The industries which provide support services to other industries are known as:  
(a) Primary industries  
(b) Secondary industries  
(c) Commercial industries  
(d) Tertiary industries
6. Which of the following cannot be classified as an objective of business?  
(a) Investment  
(b) Productivity  
(c) Innovation  
(d) Profit earning
7. Business risk is not likely to arise due to:  
(a) Changes in government policy  
(b) Good management  
(c) Employee dishonesty  
(d) Power failure

### ANSWERS

1. (d) 2. (b) 3. (a) 4. (b) 5. (d) 6. (a) 7. (b)

### FILL IN THE BLANKS WITH CORRECT WORDS

1. \_\_\_\_\_ banker is an individual or private firm receiving deposits and dealing in hundies or lending money.
2. Activities undertaken to earn money for livelihood are known as \_\_\_\_\_ activities.
3. \_\_\_\_\_ is an economic activity which require specialised knowledge and skills.
4. \_\_\_\_\_ is a contract between two parties, one being the employer and the other being the employee.
5. Introduction of new ideas or methods refers to \_\_\_\_\_ as economic objective of the business.
6. Earning \_\_\_\_\_ is essential for the growth and survival.
7. Industries create \_\_\_\_\_ utility by converting material into intermediate goods or finished goods for final consumption.
8. Tertiary sector of the economy is also known as \_\_\_\_\_ to trade.
9. \_\_\_\_\_ industries combine various materials to form a single product.
10. \_\_\_\_\_ bridges the gap between the two by providing various services/utilities which are also known as functions of commerce.
11. \_\_\_\_\_ risks involve both possibilities of gains as well as losses.
12. Business \_\_\_\_\_ is the element of business which cannot be completely avoided but can be minimised.
13. There is always a possibility of losses being incurred inspite of the best efforts put into the business. Characteristic of business referred here is \_\_\_\_\_ .

#### ANSWERS

- |                            |                 |                |
|----------------------------|-----------------|----------------|
| 1. Indigenous              | 2. Economic     | 3. Profession  |
| 4. Employment              | 5. Innovation   | 6. Profit      |
| 7. Form                    | 8. Auxiliaries  | 9. Synthetical |
| 10. Commerce               | 11. Speculative | 12. Risk       |
| 13. Uncertainty of returns |                 |                |

### STATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE

1. An example of economic is a person wishes to sell his old car to buy a new car.
2. Transfer of interest is possible in employment.
3. Petrol and diesel are the examples of analytical industries.
4. Social cause is responsible for the increase in the prices of the commodities.
5. Sugar and paper industry come under synthetic industry.
6. Pure risk is associated with the possibility of loss but not of gain.
7. Business can be classified as industry and commerce.
8. All business activities are economic activities but all economic activities are not always business activities.
9. Business refers to the sale, purchase, transfer or exchange of goods and services for a certain price.
10. Insurance removes the hinderance of time.

#### ANSWERS

- |      |      |      |      |      |      |      |      |      |       |
|------|------|------|------|------|------|------|------|------|-------|
| 1. F | 2. F | 3. T | 4. F | 5. F | 6. T | 7. T | 8. T | 9. F | 10. F |
|------|------|------|------|------|------|------|------|------|-------|

## REMEMBERING AND UNDERSTANDING QUESTIONS

### VERY SHORT ANSWER TYPE QUESTIONS

(1 MARK)

1. How many ways the history of trade can be classified into?

**Ans.** History of trade can be classified into three broad categories: Trade during Ancient period, Medieval period and Modern period.

2. How old is the history of commerce?

**Ans.** Historians date the history of commerce about 1,50,000 years old.

3. Who dominated the trade during ancient period?

**Ans.** India dominated the trade during the ancient period.

4. Name the continents in which India dominated the trade during ancient period.

**Ans.** Europe, Asia and Africa

5. What names were the wholesale traders and retailers known as during medieval period of commerce?

**Ans.** During medieval period, wholesalers were known as 'seth' and retailers were known as 'beoparies'.

6. What was the role of 'Shroff' in the trade and commerce?

**Ans.** The role of 'Shroff' was to transmit money from one part of the country to another part with the help of 'Hundi'.

7. Who traded first with India during medieval period?

**Ans.** The Arabs were the first who traded with India.

8. What was the motto of the British during the British era?

**Ans.** The main motto of the British was to destabilise the Indian trade, commerce and manufacturing so that they could sell their own manufactured goods.

9. How did the share of global industrial output of Indian economy to the rest of the world decline during the British era?

**Ans.** The share of industrial output of India declined from 28% to 2% during the British period.

10. Who is indigenous banker?

**Ans.** Indigenous banker is a person who grants loans to the needy out of their own funds and from the deposits collected from the general public.

11. Give two examples of modern intermediaries.

**Ans.** E-commerce, drones and artificial intelligence, etc.

12. Name two major imports during ancient India.

**Ans.** Ancient imports include animal products, horses, flax, Chinese silk, linen, wine, gold, silver, tin, copper, lead, etc.

13. What are Human Activities?

**Ans.** Activities which are undertaken by the human beings are known as human activities.



14. Classify human activities.  
**Ans.** Human activities can be classified into two broad categories:  
(a) Economic Activities  
(b) Non-economic Activities
15. Define Economic activities.  
**Ans.** Any activity which is undertaken to earn money for livelihood, to acquire wealth and to satisfy human needs is called economic activity.
16. State the different types of economic activities.  
**Ans.** Business, Profession and Employment.
17. Define Non-economic activity.  
**Ans.** Any activity other than economic activity is known as non-economic activity.
18. Give an example which is economic in one situation and non-economic in another situation.  
**Ans.** A doctor treating a patient at a hospital is an economic activity whereas if the same doctor treats his family member at home is becomes a non-economic activity.
19. Harish produces wheat for personal consumption. Will it be a business activity?  
**Ans.** No, as he has not produced it for earning profit.
20. A person sells his old car at a profit. Can it be termed as a business activity? Explain.  
**Ans.** No, because business activity involves dealing in goods on a regular basis.
21. Why is business considered as an economic activity?  
**Ans.** Any human activity which is undertaken to earn money for the purpose of livelihood and to create wealth is an economic activity and every business undertakes economic activities for these twin purposes.
22. "There are certain activities which are undertaken to earn economic gains and rewards." What are these activities called?  
**Ans.** Business.
23. A family is engaged in providing lunch to office goers. When will such service be called as economic and non-economic?  
**Ans.** If the lunch is made available to the office goers in return of money, it is an economic activity and if the same food is consumed by the family members, it is non-economic activity.
24. Name the trade where the goods are bought from the foreign country.  
**Ans.** Import trade.
25. Name the economic activity in which the transfer of interest is possible.  
**Ans.** Business.
26. "Delhi Metro has made a provision for the sitting of differently-abled persons." State which objective has been achieved here?  
**Ans.** Social Objective
27. How can business enterprises be successful in the modern competitive world?  
**Ans.** Business enterprises need to focus on the social and environmental issues apart from earning profits.
28. State any two examples of Analytical Industries.  
**Ans.** Petrol, diesel.

29. Which industry provides services to primary and secondary industry?  
**Ans.** Tertiary industry
30. What is meant by Business Risk? Explain its features.  
**Ans. Hint:** Meaning and Features of Business Risk.
31. Which type of risk is associated to the possibility of loss or no loss?  
**Ans.** Pure risk
32. Which cause is responsible for the increase in the prices of the commodities?  
**Ans.** Economic cause.
33. Who bears the risks of the losses if the subject matter is insured?  
**Ans.** The insurer (insurance company).
34. Describe the meaning of Commerce.  
**Ans. Hint:** *Meaning of commerce.*
35. Which cause of risk is associated with the changes in the weather conditions?  
**Ans.** Natural risk.
36. Sugar and paper industry come under which type of industry?  
**Ans.** Processing industry.
37. Which type of risk is associated with the possibility of loss but not of gain?  
**Ans.** Pure risk.
38. Which type of risk is associated with the possibility of loss as well as gain?  
**Ans.** Speculative risk.
39. Name the element of business which cannot be completely avoided but can be minimised.  
**Ans.** Business risks.
40. How many categories can a business be classified?  
**Ans.** Two. (i) Industry, (ii) Commerce

#### SHORT ANSWER TYPE QUESTIONS

(3-4 MARKS)

1. What was the position of trade during post-independence period?  
**Ans.** Refer the topic 'Trade during post-independence period'.
2. "Profit plays an important role in business." Give any four reasons to justify the statement.  
**Ans.** Role of Profit in the business can be explained on the following basis:  
 (a) Growth (b) Survival  
 (c) Individual needs (d) Social needs  
**Hint:** *Explain each point in 25 – 30 words.*
3. "An activity can be economic in one situation and non-economic in another." Do you agree? Give an example to justify the given statement.  
**Ans.** When a teacher teaches in the school, it is economic activity as he/she receives salary in return of his/her services. If the same teacher teaches students of economically weaker sections on weekends free of cost, it will be a non-economic activity.
4. "One economic activity can be called as a non-business as well as business activity." How? Explain.

Or

"All business activities are economic activities but all economic activities are not always business activities." Explain.

**Ans.** If a person sells his old car, it will be an economic activity. On the other hand, if a person deals in sale and purchase of old cars on the regular basis, such activity will constitute business. So, all one time economic activities do not constitute business but all business activities can be considered as economic activities.

5. Why is commerce considered as the backbone of industry and other business activities?

**Ans.** Commerce includes movement of goods from one place to another and certain services which must exist for the free flow of goods. It is the force which removes various hindrances in the exchange of goods for money and provides different kinds of services known as auxiliaries to trade without which no business activity can take place. Following are the services which commerce provides to the business sector:

**Hint:** *Explain the functions of commerce.*

6. Why should a business have multiplicity of objectives?

**Ans.** Earning profit is quite essential to run any business but earning profit cannot be the sole criterion. There are certain other economic and non-economic objectives which every business enterprise must achieve to survive in the long run in a competitive environment. The following are other objectives which must be perused:

**Hint:** *Explain economic and social objectives.*

7. “Profit is not an objective but a requirement of a business.” Do you agree with this statement? Support your answer with reasons.

**Ans.** Yes, I agree with this statement. Earning profit is an essential part of a business. Following are certain other objectives for which every business enterprise requires profits:

- (a) Growth
- (b) Survival
- (c) Social Needs
- (d) Measure of Efficiency
- (e) Creditworthiness
- (f) Risk Bearing

**Hint:** *Explain the points in 25–30 words each.*

8. Why do we insure goods and property?

**Ans.** Every business enterprise is exposed to various types of risks which cannot be expected and estimated accurately. Such risks cannot be avoided but can be prevented and minimised to a great extent by insuring them. Goods and property can be insured by paying a nominal amount of money known as premium against which the insurance companies promise to pay the actual amount of loss of the subject insured. If the goods and property are not insured, business enterprises will have to face heavy amount of losses which may even force them to shut down the business.

9. What steps can be taken by a business to minimise the risks?

**Ans.** Risks can be minimised if the following precautions are taken:

- (a) To avoid too many transactions at a time.
- (b) To take preventive measures like firefighting devices to reduce risk.
- (c) To take insurance policy for transferring the risk to the insurance company.
- (d) To assume risk by making provisions in the current earnings as in the case of provision for doubtful debts.
- (e) To share risks with other enterprises as manufacturers and wholesalers who may agree to share losses which may be caused due to falling prices.

10. Explain the meaning and causes of business risk.

**Ans.** Business risks refer to the possibility of inadequate profits or even losses due to uncertainties or unexpected events which are beyond the control of the business organisations.

Following are the causes of business risks:

**Causes of Business Risks:**

1. Natural Causes
2. Human Causes
3. Economic Causes
4. Legal Causes
5. Technological Causes

**Hint:** Explain each point in 25–30 words.

## ANALYSIS BASED QUESTIONS

### VERY SHORT ANSWER TYPE QUESTIONS

1. Identify the term which means the physical arrangement of machines and equipment needed to manufacture a product.

**Ans.** Plant Layout

2. If a person sells his/her domestic furniture at some profit, will it be considered as a business? Give the feature of business which is being stressed upon in the above statement.

**Ans.** No. The feature associated is dealing in goods and services on regular basis.

3. How does Advertising create demand?

**Ans.** Advertising and sales promotion removes the hindrance of knowledge by bringing goods and services to the knowledge of consumers. Thus, advertising creates demand by persuading people to buy the goods and services.

4. 'Only sale or exchange of goods and services for profit is business'. Do you agree with this statement? Give reasons to support your answer.

**Ans.** No, I don't agree with the given statement because business involves dealings in goods and services on a regular or daily basis. One single transaction of sale or purchase does not constitute business.

5. Why does every business enterprise aim at greater productivity? How can this objective be achieved?

**Ans.** Every business enterprise aims at greater productivity to ensure continuous **survival** and **growth**.

This objective can be achieved by the following:

- Reducing wastages
- Making efficient use of machines and equipment, human resources and money
- Meeting social objectives

6. Why do we feel the need of goods and services?

**Ans.** We need goods and services to satisfy our needs.

7. Mention the reason for undertaking the business activities.

**Ans.** We undertake business activities to earn money and wealth.

8. Name the organisation which is engaged in production, procurement, purchase and sale, exchange or distribution of goods and rendering of services.

**Ans.** Business.

9. How was the word 'business' derived?  
**Ans.** The word has been derived from the word busy.
10. Name the type of economic activity which is based on theoretical knowledge and is learnt intellectually.  
**Ans.** Profession.
11. Name the type of economic activity in which persons working in it receive remuneration in the form of wages and salary.  
**Ans.** Employment.
12. "It is the activity which is undertaken to earn money for the purpose of livelihood and the generation of wealth." Name the activity.  
**Ans.** Economic activity.
13. A person sells his new car at a profit. Can such dealing be stated as a business activity?  
**Ans.** No, to call any activity a business activity, it is essential to have the regularity in the transactions. One time dealing cannot be called as business activity.
14. A farmer produces food grains enough to meet the needs of his family. Is it an economic activity?  
**Ans.** To call any activity as economic activity, the activity must have the objective to earn profit. So the above activity is a not an economic activity.
15. A farmer produces food grains and exchanged them with pulses in the market with same monetary value. Is it an economic activity?  
**Ans.** Yes, as both the commodities were capable of being measurable in terms of money.
16. "There is always a possibility of losses being incurred inspite of the best efforts put into the business." Name the characteristic of the business referred here.  
**Ans.** Uncertainty of returns.
17. Name the main functions of the business.  
**Ans.** Production, Purchase, Sales, Marketing, Finance and Human Resource Management.
18. Which kind of business activity requires one to undergo rigorous training before assuming the work at a work position?  
**Ans.** Profession.
19. Name the persons who have to follow certain code of conduct set in such industry.  
**Ans.** Professionals.
20. Name any two professional bodies which run professional courses.  
**Ans.** Institute of Chartered Accountant of India, Cost and Works Accountants of India.
21. Name two associations relating to profession which take the responsibility to prepare rules, regulations and prescribe code of conduct.  
**Ans.** Medical Council of India, Bar Association of India, All India Management Association.
22. What is market standing?  
**Ans.** A market standing means an organisation is having stronger footing and larger share for its products in the market.
23. Give two examples how a company can earn market standing.  
**Ans.** (a) By proving goods and services at fair prices.  
(b) By avoiding any unfair means to increase profits and beat the competitors.

24. Define innovation.
- Ans.** Innovation means introduction of new ideas or methods in the way something is done.
25. Give two examples of innovation.
- Ans.** (a) Amount spent on the research to invent new products.  
(b) Amount spent to improve the quality of the existing products.
26. What does productivity stand for?
- Ans.** Productivity refers to the optimum (best) utilisation of resources (physical as well as monetary) available in the organisation.
27. What is the measure of efficiency?
- Ans.** Productivity.
28. How can the business firms improve their productivity?
- Ans.** The business firms can improve their productivity by utilising their resources wisely and avoiding wastage.
29. How do the social objectives help in the development of the management?
- Ans.** The management can be developed by exposing it to the changes in the business environment.
30. Which business organisation deals with conversion of resources into useful goods?
- Ans.** Industry.
31. Define the term industry.
- Ans.** Group of firms producing the same kind of product is known as industry.
32. Name the term which includes buying and selling of goods and supporting services facilitating to buying and selling of goods.
- Ans.** Commerce.
33. Name the industry which deals in intangible products.
- Ans.** Service industry/Tertiary Industry.
34. Name the industry which provides its services to primary as well as secondary industry.
- Ans.** Service Industry.
35. Give two examples of service industry.
- Ans.** Banking, Insurance, Transport, Communication, Advertisement, Courier/Postal Services, Business Process Outsourcing (B.P.O.), Human Resource Services, Consultancy Services, Internet Services, etc.
36. Name the term which refers to the sale, purchase, transfer or exchange of goods and services for a certain price.
- Ans.** Trade.
37. Name the trade which deals in variety of products.
- Ans.** Retail Trade.
38. Name the trade which deals in one or limited line of products.
- Ans.** Wholesale Trade.
39. Name the trade in which goods are bought from one country and then sold to another country.
- Ans.** Entrepot Trade.

40. "It refers to possibility of inadequate profits or even losses due to uncertainties or unexpected events." Name the term.
- Ans.** Business risks.
41. Define uncertainties.
- Ans.** Lack of knowledge what it going to happen in future.
42. Give two examples of uncertainties.
- Ans.** (a) Decline in the demand of a product.  
 (b) Change in the tastes and preferences of customers.  
 (c) Competition due to entry of more firms in the same industry.  
 (d) Change in technology.
43. Define Unexpected Events.
- Ans.** An event which may happen at any time in future.
44. Give two examples of unexpected events.
- Ans.** (a) Damage of goods in transit (b) Natural calamities  
 (c) Strikes and lockouts (d) Power failure
45. Define speculative risks.
- Ans.** The risks which involve both possibilities of gains as well as the possibility of loss.
46. Give two examples of speculative losses.
- Ans.** (a) Change in market conditions  
 (b) Change in demand and supply  
 (c) Change in prices  
 (d) Change in taste of customers.
47. Define pure risks.
- Ans.** The risks which involve only the possibility of losses or no loss are called pure risks.
48. Which element of the business cannot be avoided or eliminated but can be minimised?
- Ans.** Business Risks.
49. Give two examples of pure risks.
- Ans.** (a) Chance of fire (b) Chances of theft  
 (c) Chances of strikes and lockouts (d) Losses due to natural calamities
50. Give two examples of the following causes of risks:
- (a) Natural Causes (b) Human Causes  
 (c) Economic Causes (d) Legal Causes  
 (e) Technological Causes
- Ans.** (a) Earthquakes and Famines.  
 (b) Carelessness in handling the machines and tools, lockouts.  
 (c) Changes in the taxation policy, changes in the exchange rates.  
 (d) Judgements of the courts, laws framed in the Parliament.  
 (e) Innovation of the new products, improvement in the existing products.
51. State two ways to reduce the business risks.
- Ans.** (a) Not to enter into too many transactions.  
 (b) To take preventive measures like firefighting devices to reduce risk.

## SHORT ANSWER TYPE QUESTIONS

1. 'The activities of business, profession and employment are not competitive but complementary'. Explain.

**Ans.** Inter-relation between Business, Profession and Employment:

- A businessman cannot do all the functions of business himself/herself. So he needs to employ someone to look after the smooth functioning of business. He needs a clerk to handle the office work or a professional like a chartered accountant to handle the accounts.
- A professional can start his/her own firm as business or may work with any business organisation as an employee on regular salary.
- If a person is looking for any job, he/she can get it in organisations or enterprises or can work with professionals.

Therefore, business, profession and employment are interconnected and interdependent as well as the three are complementary.

2. There is only one valid definition of business—to create customers'. Comment.

**Ans.** Customers can be created if the goods and services are made available as per the needs of the customers. For this, every business needs to create the following utilities: (Explain briefly the utilities of commerce.)

3. 'Profit maximisation should not be the sole objective of a business'. Explain the statement by giving valid reasons.

**Ans.** Profit maximisation should not be the sole objective of a business due to the following reasons:

- (a) Business is the integral part of the society and no business can survive without the involvement of the society.
- (b) Profit maximisation ignores the interest of labour, customers and society.
- (c) Profit maximisation promotes unfair means of running business such as black marketing, adulteration, etc.
- (d) Profit maximisation ignores impacts on the environment and nature due to its contribution in pollution and degradation of natural resources.
- (e) Profit maximisation creates inequalities in the distribution of income and wealth.

4. Classify the following activities into economic and non-economic activities:

- (a) Author writing the book
- (b) Person fighting for the country
- (c) Person worshiping the God
- (d) Officers/workers working in the organisation.

**Ans.** (a) Economic, (b) Non-economic, (c) Non-economic, (d) Economic.

5. Name the reward given in the following business activities:

- (a) Casual workers appointed by a factory.
- (b) A doctor treating the patients.
- (c) A teacher teaching in the school.
- (d) A trader dealing in the sale of goods.
- (e) An author writing a book.

**Ans.** (a) Wages, (b) Fee, (c) Salary, (d) Profit, (e) Royalty.



6. How do the business organisations fulfill social responsibility? Explain with example.

**Ans.** The business corporates fulfill social responsibility by opening hospitals, educational institutions, orphanages, old age homes, etc.

**Examples:** Reliance India foundation by Reliance Group, Aditya Birla Schools by Birla Group.

7. Name the industry in the following situations:

- (a) An industry which is concerned with the extraction of natural resources from the earth.
- (b) An industry which is concerned with breeding, reproduction and multiplication of species.
- (c) An industry which is concerned with the assembling the different components to form a single product.
- (d) An industry which is concerned with the mixture of various materials to form a single product.
- (e) An industry which is concerned with the separation of different materials from one kind of product.
- (f) An industry which is concerned with passing a single product into various phases to reach the final product.
- (g) An industry which is concerned with the aids to trade.

**Ans.** (a) Primary Industry, (b) Genetic Industry, (c) Assembling Industry, (d) Synthetical Industry, (e) Analytical Industry, (f) Process Industry, (g) Tertiary Industry.

8. Name the hindrance which is removed with the help of following service industries:

- (a) Banks                      (b) Transport                      (c) Insurance                      (d) Advertisement
- (e) Trade                      (f) Warehouses

**Ans.** (a) Finance                      (b) Place                      (c) Risks                      (d) Information

(e) Persons                      (f) Time

## APPLYING AND EVALUATION BASED QUESTIONS (CASE PROBLEMS)

### VERY SHORT ANSWER TYPE QUESTIONS

1. Sun Pharma wants to expand their business, and for this purpose, they need to buy land in the rural area of Haryana but they have paucity of funds. Which hindrance of commerce the company is facing and how this can be removed?

**Ans.** The company is facing the hindrance of finance, and this can be removed by raising money from banks and financial institutions.

2. The government is planning to promote electric cars on the roads to prevent pollutants in the air. Sonam sold her petrol-driven car at profit to buy the electric car.

Does the activity of sale of car amount to business transaction?

**Ans.** No, sale of car is not a business activity as this activity is not being done on the regular basis. To consider any activity as a business activity, there should be regularity in the transactions.

3. Mohini inherited her father's business of garments in which she never took any interest till he was alive. Now, she is facing the problems to handle senior management as some top key executives left the business.

Identify the cause of business risk she is facing.

**Ans.** Human causes.

4. Maruti Udyog Limited believes in increasing the output with the use of minimum of input to increase the productivity.

Identify the type of economic objective it is trying to achieve.

**Ans.** Productivity.

5. Dr Madhusudhan is a senior lecturer of direct taxes at Shri Ram College of Commerce, the premier college of India in commerce. He gives his online lectures from studios which are chargeable as per download.

State the types of economic activities he is involved in.

**Ans.** Employment and Profession.

### SHORT ANSWER TYPE QUESTIONS

1. The small industries in India had to bear adverse impact of Goods and Services Tax (GST) in July, 2017. These units provide about 90% of the inputs to the large scale industries but the latter stopped taking their output and asked the former to get them registered under GST so that they could avail Input Tax Credit. Government later realised the concerns of small industries and decided to provide certain incentives to boost their business.

Identify and explain the business risk involved in the above case.

**Ans.** **Legal causes:** These causes relate to the rules, regulations and laws passed by the government which are expected to be complied by the individuals and business organisations.

**Note:** Input Tax Credit means to recover the tax already paid on the purchases from the taxes payable on the sales.

2. A well-qualified medical practitioner, who charges reasonable fee from his patients, is involved in serving his patients with utmost sincerity and dedication. He receives the sample of medicines from the medical representatives and gives free of cost to his poor patients who come in OPD hours.

- (a) Which economic activity is the doctor involved in?  
(b) State the objectives he is trying to achieve.  
(c) What values are reflected from his concern towards his patients?

**Ans.** (a) He is involved in profession.

(b) He is trying to achieve twin objectives: economic as well as social.

(c) Values reflected from his concern towards his patients are: concern for people's health and professional ethics.

3. Tata Motors established Tata Motors Grihini Social Welfare Society to develop opportunities for entrepreneurship development and income generation among women from families of employees, ensuring a balance between their engagement in these activities and their family responsibilities.

- (a) State which business objective has been achieved by the company.  
(b) Which social values has Tata Motors achieved by establishing a welfare society?

**Ans.** (a) Tata Motors has achieved social objective.  
(b) Values achieved:

- Extra source of income.
- Women empowerment.

4. Delta Metal Forging Pvt. Ltd. is a reputed for treating its employees as prime assets. It has taken care of all benefits and protection that may accrue to the workers like providing minimum wages as prescribed by law, group insurance, accidental accident cover, etc.

- (a) Which cause of risks is the company trying to minimise?  
(b) What values are reflected due to such policy of the company towards its workforce?

**Ans.** (a) Risks due to adverse human behaviour causes are being minimised by the company.  
(b) Values undertaken:

- Concern for employees.
- Provision for contingencies.

### LONG ANSWER TYPE QUESTIONS

1. Two friends, Raj and Ravi inspired by 'Skill India' initiative of government, decided to start a manufacturing unit of air purifiers due to high level of pollutants in the air. The product faced mixed response from the market. It was decided to arrange parts of product from the small and medium enterprises located in the nearby villages. They further decided to sell these units within the country, took loan from Axis Bank under MSME scheme, hired the services of Bluebird Cargo to make the goods available in the market and Satya Trading Corporation for the storage of goods to meet the expected rise in the demand.

- (a) Identify and explain the type of manufacturing industry being carried on.  
(b) State the type of trade as per geographical concentration.  
(c) Name the auxiliaries to trade highlighted in the above case. (any two)  
(d) What kind of risk is involved in the above situation? Give an example.

**Ans.** (a) **Assembling industry:** Such industries collect different finished components from different sources to make a final product.  
(b) **Domestic trade:** It is the type of trade which is conducted within the geographical limits of a country.  
(c) **Auxiliaries to trade involved:** Banking, transport and warehousing.  
(d) **Risk involved:** Speculative.

**Examples:** Change in demand and supply, change in prices, change in taste of customers, etc.

2. Rohan's job is involved travelling. As he was very fond of reading, he requested his father to buy him some books. His father sold his old laptop on Quicker.com and bought him a new 'Kindle' from Amazon.com. While buying the 'Kindle', he noticed a message on the screen of the website that 1% of every purchase would be sent by the company to 'AkshayPatra', an NGO for underprivileged children.

- (a) Can the transactions by Rohan's father be termed as business transaction? Explain with the help of relevant features of business.
- (b) Which type of responsibility is Amazon fulfilling?
- (c) State the industry in which online business organisations deal.
- (d) Identify two values being achieved by Amazon by contributing a part of sales towards AkshayPatra.

**Ans.** (a) Dealing in goods and services on a regular basis: The transactions done by Rohan's father are not business transactions because these have been done only once and are not repeating in nature.

The feature associated here is 'dealing in goods and services on a regular basis'.

- (b) Amazon is fulfilling a social responsibility.
- (c) Online business comes under tertiary/service industry.
- (d) Values achieved by Amazon:
  - Upliftment of underprivileged children
  - Building social image



## N.C.E.R.T. QUESTIONS



### SHORT ANSWER TYPE QUESTIONS

(3–4 MARKS)

1. List any five major commercial cities of ancient India.
2. What is Hundi?
3. List the major exports and imports in ancient India.
4. What were the different types of Hundi in use by traders in ancient times?
5. What do you understand by maritime trade?
6. State the different types of economic activities.
7. Why is business considered as an economic activity?
8. State the meaning of business.
9. How would you classify business activities?
10. What are the various types of industries?
11. Explain any two business activities which are auxiliaries to trade.
12. What is the role of profit in business?
13. What is business risk? What is its nature?

### LONG ANSWER TYPE QUESTIONS

(5–6 MARKS)

1. Discuss the development of indigenous banking system in the Indian subcontinent.
2. Define business. Describe its important characteristics.
3. Compare business with profession and employment.
4. Define industry. Explain various types of industries, giving examples.
5. Describe the activities relating to commerce.
6. Explain any five objectives of business.
7. Explain the concept of business risk and its causes.
8. What factors are to be considered while starting a business? Explain.

## PROJECTS/ASSIGNMENTS

1. Visit any business unit in your locality. Interact with the owner to find out the steps in starting the business. Prepare a project report of your visit.
2. Prepare a project report on the development of Trade and Commerce between 1st and 17th AD.
3. Collect information on any five sectors of the economy that the initiative 'Make in India' focuses on. Find out the amount of investment needed in these sectors in the past two years. What were the possible reasons that led to an interest of investors in these sectors? Present your report in the following format:

Sector	Investment in year I	Investment in year II	Possible reasons for the change

## EXERCISE

### VERY SHORT ANSWER TYPE QUESTIONS

(1 MARK)

1. What is the base to differentiation between economic and non-economic activities?
2. Name the economic activity which requires special knowledge and skill.
3. Give two examples of economic activities.
4. State two examples of non-economic activities.
5. Give an example of an economic factor that favourably affects the business enterprise.
6. "A government auditor audits the books of accounts of the government." Identify the nature of the activity.
7. State any two features of profession.
8. Name the reward that a professional receives in return of his services.
9. State any two features of business.
10. Name the reward a businessman receives in return of his risk taking in the business.
11. State two features of employment.
12. Name the reward an employee receives from his employer.
13. Which cause of risk is associated with 'Tsunami'?
14. Market standing is which kind of objective of a business?
15. Workers' performance is which kind of objective of a business?
16. Give two examples of genetic industry.
17. Which type of industry is called animal husbandry?
18. Give an example of synthetical industry.
19. Give two examples of tertiary industry.
20. What kind of hindrance is removed with the help of insurance?
21. What purpose does entrepot trade serve?
22. How is wholesale trade different from retail trade?

23. What reward does an entrepreneur receive for taking risk in the business?
24. Who bears the risk if the property is not insured against unforeseen losses?
25. Which industry provides support services to other industries?
26. Engineering and architectural services are required in which type of industry?
27. Name two ways to deal with risks.

### SHORT ANSWER TYPE QUESTIONS

(3–4 MARKS)

1. Define Human Activities.
2. Define Economic Activities.
3. Define Non-economic Activities.
4. How are Economic activities different from Non-economic activities?
5. What return does a teacher get while teaching?
6. What satisfaction does a soldier get while fighting for the country?
7. Business is an economic activity. Explain how.
8. Is earning profit essential by all means?
9. How does profit help the business organisations grow?
10. Do you think the business organisation should share a part of profit even if sufficient wages and salaries have been paid to the workers?
11. Explain the way how you would reduce the risk of uncertainties of risk.
12. Can the risk be completely insured?
13. “Profit is reward for taking business risks.” Explain.
14. “Every profession is based on body of knowledge.” What does this statement imply?
15. What is the main purpose of any profession?
16. What is ethical code of conduct?
17. What reward do the professionals receive in return to their services?
18. What is the main condition to call any business activity as employment?
19. People think that there is no risk in the employment. Do you agree? Give your view point to justify your answer.
20. Generally, it is said that business organisations are not supposed to abide by any code of conduct. Do you agree? State reasons in support of your answer.
21. Business can be transferred from one person to another person. Is it possible in case of profession or in employment?
22. Do you think earning profit helps in maintaining market standing for the business organisations?
23. How does innovation help the business organisation earn profits?
24. Mention two business organisations which are engaged in social objectives while achieving their economic objectives.
25. The presence of profit enables business organisation to meet various expenditures and face during the stage of recession. Explain how.
26. How does a business organisation fulfill the individual needs of the employees in the organisation?
27. How does a good profit help to gain credit worthiness in the market?

## LONG ANSWER TYPE QUESTIONS

(5–6 MARKS)

1. Differentiate between Economic and Non-economic activities on the following points:  
(a) Basis (b) Types (c) Returns
2. Differentiate between Business, Employment and Profession on the basis of following:  
(a) Mode of Establishment (b) Nature of Work  
(c) Return (d) Capital Investment  
(e) Risk Involved
3. Write any four characteristics of the business.
4. Identify and explain the following features relating to a kind of business activity:  
(a) Body of Knowledge (b) Formal Methods of Training  
(c) Fee as Remuneration (d) Existence of Ethical Code of Conduct  
**Hint:** *Profession*
5. Identify and explain the following features relating to a kind of business activity in brief:  
(a) Commencement (b) Relationship  
(c) Qualification (d) Reward  
**Hint:** *Employment*
6. Name and explain main functions of any business enterprise which it has to perform.
7. Identify and explain the following objectives of a business:  
(a) Market Standing  
(b) Qualitative Product at Competitive Prices  
(c) Innovation  
(d) Workers' Performance
8. Identify and explain the following objectives of the business on the basis of following statements in brief:  
(a) It provides base for the diversification and expansion.  
(b) Good amount of salaries and wages can be paid in case profits rise.  
(c) With the help of profits, the status of the society can be lifted.  
(d) No business enterprise can continue its operation without earning adequate profits.  
(e) Performance is judged on the basis of enhancement in the profits.  
**Hint:** (a) *Profit*, (b) *Individual Needs*, (c) *Social Needs*, (d) *Survival*, (e) *Measure of Efficiency*.
9. Why does business need multiple objectives? Explain any five such objectives.
10. "Besides pursuing economic objectives, it is necessary that business should also pursue some social objectives." Why? Explain any three such objectives.
11. Define Industry. Explain Primary Industries.
12. Differentiate between Primary, Secondary and Tertiary Industries.
13. Commerce is the sum total of activities that remove hindrances in the free flow of goods from producers to consumers." Explain.

Or

Explain the auxiliaries to trade.

14. There is a considerable shift in primary industries and secondary industries to tertiary industries. Why? Explain with reasons.
15. Explain the kinds of manufacturing industries in brief.
16. Differentiate between Internal Trade and External Trade.
17. Differentiate between Speculative Risks and Pure Risks.
18. Explain the nature of business risks in brief.
19. Explain the kinds of business risks in brief.
20. “The business risks cannot be eliminated as these are the integral part of the business environment.” Explain the measures to reduce the business risks in brief.

