

As per CBSE Revised Syllabus for 2021 Exam



## Chapter 1

# Evolution and Fundamentals of Business

# Revised CBSE Syllabus for 2021 Examination

- ❑ History of Trade and Commerce in India: Indigenous Banking System, Rise of Intermediaries, Transport, Trading Communities: Merchant Corporations, Major Trade Centers, Major Imports and Exports, Position of Indian Sub-Continent in the World Economy.
- ❑ Business – meaning and characteristics
- ❑ Business, profession and employment-Concept
- ❑ Objectives of business

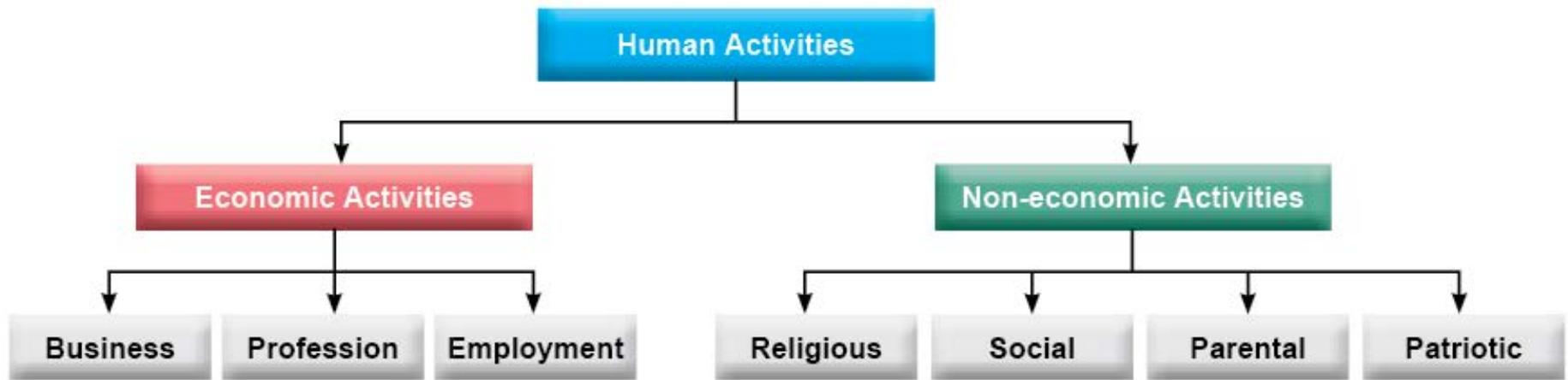
- ❑ Classification of business activities - Industry and Commerce
- ❑ Industry-types: primary, secondary, tertiary  
Meaning and subgroups
- ❑ Commerce-trade: (types-internal, external; wholesale and retail) and auxiliaries to trade; (banking, insurance, transportation, warehousing, communication, and advertising) – meaning
- ❑ Business risk-Concept

# **Economic and non-economic activities**

# Concept of Business

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

In every society, people undertake various activities to satisfy their needs. These activities may be broadly classified into two groups — economic and non-economic.



**A teacher teaching in a class— An economic activity**

<b>Basis</b>	<b>Economic Activities</b>	<b>Non-Economic Activities</b>
<b>1. Meaning</b>	Economic activities are those by which we can earn our livelihood.	Non-economic activities are those performed out of love, sympathy, sentiments, patriotism, etc.
<b>2. Examples</b>	A worker working in a factory, a manager working in an office, a doctor operating in his clinic, and a teacher teaching in a school are doing so to earn their livelihoods and are, therefore, engaged in an economic activity.	A housewife cooking food for her family, or a boy helping an old man cross the road are performing non-economic activities since they are doing so out of love or sympathy.

### 3. Types

Economic activities may be further divided into three categories, namely business, profession and employment

Religious, social, parental and patriotic activities are non-economic activities.



**A boy helping an old woman cross the road— A non-economic activity**



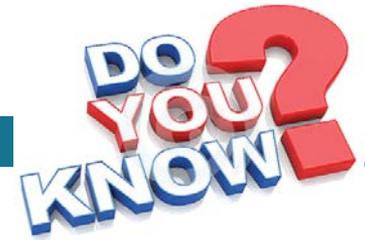
## Top Tip

The main distinction between economic and non-economic activities depends on the basic motives with which they are performed. The same activity can be economic if it results in earning money and can be non-economic if the motive is to serve others, not a monetary gain. For example, when a lady cooks food for monetary gain, it is an economic activity. But if the same lady cooks food for her family, it is a non-economic activity. Similarly, if a teacher is teaching in a school and gets salary, it is an economic activity. But when he/she is teaching his/her son or daughter at home, then it is a non-economic activity.

**Business may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.**

## Definitions of Business

- ❖ “Business is an institution organised and operated to provide goods and services to society under the incentive of private gain.”  
—**B.O. Wheeler**
- ❖ “Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods.”  
—**Lewis H. Haney**
- ❖ “Business is any enterprise engaged in the production and distribution of goods for sale in market or rendering services for a price.”  
—**R.N. Ownes**
- ❖ “Business may be defined as an activity in which different persons exchange something of value, whether goods or services, for mutual gain or benefit.”  
—**Peterson and Plowman**



## **Business Functions at Enterprise Level**

Business includes a wide variety of functions performed by different kinds of organisations called business enterprises or firms. Financing, production, marketing and human resource management are the four major functions which are performed by business enterprises.

- Financing is concerned with mobilising and utilising funds for running a business enterprise.
- Production involves the conversion of raw materials into finished products or generation of services.
- Marketing refers to all those activities which facilitate exchange of goods and services from producers to the people who need them at a place they want, at a time they require and at a price they are prepared to pay.
- Human resource management aims at ensuring the availability of working people who have necessary skills to perform various tasks in enterprises.

# Nature/Characteristics/Features of Business

The nature of business can be understood clearly by studying its main characteristics, discussed below:

## **1. An economic activity**

Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood. There is no place for love, affection, sympathy or patriotism.

Business involves sale, exchange, purchase of goods and services for mutual profit through the satisfaction of human wants.



## Top Tip

Business activity can be undertaken either on small and individual level, e.g. (purchase and sale by a shopkeeper) or on large scale in a more formal and organised level (purchase and sale by a cooperative society or company).

## 2. Production or procurement of goods and services

Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or acquires them from producers, to be further sold to consumers or users.

**Goods** may consist of *consumption goods* of daily use,

*capital goods*, like machinery, furniture, etc.,

**Services** may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.

### 3. Sale or exchange of goods and services

The essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.

Directly or indirectly, business involves transfer or exchange of goods and services for value.



#### Top Tip

If goods are produced not for the purpose of sale but for personal consumption, it cannot be called a business activity. For example, cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business.

#### **4. Dealings in goods and services on a regular basis**

Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business. For example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity. But if he/she sells radio sets regularly either through a shop or from his/her residence, it will be regarded as a business activity.

## 5. Profit earning

One of the main purpose of business is to earn income by way of profit. No business can survive for long without profit. That is why, businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

## **6. Uncertainty of return**

*Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period.* Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned.

Also, there is always a possibility of losses being incurred, despite the best efforts of the management of the business.

## **7. Element of risk**

*Risk is the uncertainty associated with an exposure to loss. No business can altogether do away with risks.*

Risk is caused by some unfavourable or undesirable event. Risks are related with factors, like changes in consumer taste and fashion, changes in method of production, strike or lockout at workplace, increased competition in market, fire, theft, accidents, natural calamities, etc.

# **Business, Profession and Employment**

Economic activities may be divided into three major categories viz., Business, Profession and Employment.

## **Business**

Business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits by satisfying the needs of other people. People engage in business to earn income in the form of profit.

# Profession

Profession includes those economic activities which require application of special knowledge and skills in the occupation. In every profession, guidelines or codes of conduct laid down by professional bodies have to be followed. Those engaged in professions are known as professionals.

Professions	Professionals	Professional bodies
Medical	Doctors	Medical Council of India
Legal	Lawyers	Bar Council of India
Accounting	Chartered Accountants (CA)	Institute of Chartered Accountants of India (ICAI)

# Employment

Employment refers to the occupation in which people work for others and get remuneration (wages/salaries) in return. Those who are employed by others are known as employees.

## Examples:

- (i) People who work in factories receive wages,
- (ii) Bank employees get salaries, etc.

# Comparison of Business, Profession and Employment

Basis	Business	Profession	Employment
<b>1. Mode of establishment</b>	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
<b>2. Nature of work</b>	Provision of goods and services to the public	Rendering of personalised, expert services	Performing work as per service contract or rules of service
<b>3. Qualification</b>	No minimum qualification is necessary	Qualifications, expertise and training in specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer

<b>4. Reward or return</b>	Profit earned	Professional fee	Salary or wages
<b>5. Capital investment</b>	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
<b>6. Risk</b>	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
<b>7. Transfer of interest</b>	Transfer possible with some formalities	Not possible	Not possible
<b>8. Code of conduct</b>	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behaviour laid down by the employer are to be followed

<b>8. Code of conduct</b>	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behaviour laid down by the employer are to be followed
<b>9. Example</b>	Shop, factory	Legal, medical profession, chartered accountancy	Jobs in banks, insurance companies, government departments

# Objective Type Questions 1.1

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## Question 1

Which of the following is a non-economic activity?

*(Choose the correct alternative)*

- A. A factory owner producing school bags for sale in the market.
- B. Person begging at a busy traffic intersection.
- C. Services of a domestic help doing household chores at an employer's house.
- D. Services of a housewife doing household chores at home.

# Answer 1

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- B. Person begging at a busy traffic intersection. B. Person begging at a busy traffic intersection.



## Question 2

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Which of the following is an economic activity?

*(Choose the correct alternative)*

- (a) A housewife cooking food for her family.
- (b) A person selling cold water on the pavement.
- (c) A young boy driving his motorcycle in the city.
- (d) An old man offering prayers in a temple.



## Answer 2

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(b) A person selling cold water on the pavement.



## Question 3

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Which of the following does not characterise business activity? *(Choose the correct alternative)*

- (a) Production of goods
- (b) Presence of risk and services
- (c) Sale or exchange
- (d) Salary or wages



# Answer 3

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(d) Salary or wages



## Question 4

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The occupation in which people work for others and get remunerated in return is known as \_\_\_\_\_.

*(Choose the correct alternative)*

- (a) Business
- (b) Employment
- (c) Profession
- (d) None of them



# Answer 4

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(b) Employment



## Question 5

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The economic activity in which specialised knowledge is required is \_\_\_\_\_.

*(Choose the correct alternative)*

- (a) Business
- (b) Employment
- (c) Profession
- (d) None of them



# Answer 5

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(c) Profession



## Question 6

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The reward a businessman gets for bearing the risks is called \_\_\_\_\_.

*(Choose the correct alternative)*

- (a) Remuneration
- (b) Commission
- (c) Bonus
- (d) Profit



# Answer 6

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(d) Profit



## Question 7

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Taking photographs of mountains as a hobby is  
\_\_\_\_\_ (an economic/a non-economic)  
activity. *(Fill up the blank with correct answer)*



# Answer 7

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a non-economic



## Question 8

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Teaching in a school is a non-economic activity. *True/False?* Give reason.



## Answer 8

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**False:** It is an economic activity undertaken to earn money and to create wealth.



## Question 9

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Business is an economic activity.

*True/False? Give reason.*



## Answer 9

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**True:** It is undertaken with the objective of earning money or livelihood. There is no place for love, sympathy or patriotism.



## Question 10

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Sale of one's ancestral house will not fit into the description of a business.

*True/False? Give reason.*



## Answer 10

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**True:** Because business involves dealings in goods and services on a regular or daily basis. One single transaction of sale does not constitute business.



## Question 11

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A business activity may be without a profit motive.

*True/False? Give reason.*



# Answer 11

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**False:** Profit earning is the main objective of every business. Profit is essential to cover costs and risks of the business and to survive and grow.



## Question 12

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A housewife sells old newspapers for ₹100. Is it a business activity? Why?



## Answer 12

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No, it is not a business activity because business involves dealings in goods or services on a regular or daily basis.



## Question 13

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If a person sells his/her domestic T.V. set at a profit, will it be considered as a business? Why?



## Answer 13

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No, selling a domestic T.V. set at a profit will not be considered a business activity because business involves dealings in goods or services on a regular or daily basis. One single transaction of sale or purchase does not constitute business.



## Question 14

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Give an example of activity which is economic in one sense and non-economic in other sense.



## Answer 14

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If a teacher is teaching in a school and gets salary, it is an economic activity. But when he is teaching his son/daughter at home, then it is a non-economic activity.



## Question 15

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Ritika produces goods not for the purpose of sale but for personal consumption. Will it be a business activity? Why?



## Answer 15

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No, because it does not involve sale or exchange of goods and services between the seller and the buyer.



## Question 16

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Chhavi cooks food at home for her family but Shelly cooks food and sells it to others in a restaurant. Who is engaged in business activity?



# Answer 16

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Shelly is engaged in business activity.



## Question 17

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\_\_\_\_\_ is the primary objective of business.

*(Fill in the blank)*



# Answer 17

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Profit earning



## Question 18

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Profit is essential for covering \_\_\_\_\_ of the business. Every business must earn reasonable profit to \_\_\_\_\_.

*(Fill up the blank with correct answer)*



# Answer 18

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costs and risks, survive and grow



## Question 19

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A person repairs scooters on roadside. How will you describe this activity?



# Answer 19

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**Business activity.**



## Question 20

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“Business activities are undertaken under conditions of uncertainty.” Which characteristic of business is highlighted in this statement?



# Answer 20

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Element of risk.



## Question 21

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“Business is undertaken with the object of earning money.” Which characteristic of business is highlighted in this statement?



# Answer 21

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Business is an economic activity.



## Question 22

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Nitin is a salesman and sells mobile phones on behalf of his employer. What will be his remuneration?



# Answer 22

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Salary or wages



## Question 23

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Which economic activity requires minimum academic and other qualifications?



# Answer 23

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Profession



## Question 24

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A hawker sells toys for children. How will you describe this activity?



# Answer 24

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**Business activity**



## Question 25

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Name the type of economic activity wherein a doctor operates his clinic.



# Answer 25

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Profession



## Question 26

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Name the economic activity which is conducted by a person having some special knowledge and skills which is used to serve different sections of the society.



# Answer 26

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Element of risk.



# Case Studies 1.1

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## Question 1

All the four children of Mr. Madan Mohan Lal are doctors. Shyam is a skin specialist, Krishna is a heart specialist, Radhika is a child specialist and Gauri is a physician. Dr. Shyam joined a multi-speciality private hospital. Dr. Krishna established his own nursing home. Dr. Radhika works in a government hospital and also treats the poor people free of cost in a charitable dispensary. Dr. Gauri opened a medical store wherein she sells genuine medicines, getting the minimum profit margin.

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- (a) State, giving reasons, whether they are engaged in economic or non-economic activities.
- (b) Also explain in which form of the economic activities and non-economic activities they have been engaged.
- (4 marks)**

# Answer 1

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- (a) All the four children of Mr. Madan Mohan Lal – Shyam, Krishna, Radhika and Gauri have been engaged in economic activities. However, Dr. Radhika is also engaged in a non-economic activity of social welfare since she treats the poor people free of cost in a charitable dispensary.
- (b) Dr. Shyam, who has joined a multi-speciality private hospital, is in employment. Similarly, Dr. Radhika, who works in a government hospital, is also in employment.

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Dr. Krishna, who has established his own nursing home, is in profession.

Dr. Gauri, who has opened a medical store is in business.

## Question 2

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After completing their graduation, Salman and Ram decided to set up a flour mill to earn income. Their main job is to purchase wheat from the market and have ground it into flour. Their flour is available in the packets of 5 kg, 10 kg and 20 kg. They sell these under the brand name 'Desh ka Atta', and earn a reasonable profit of 10% on cost. They worked very hard to flourish the business on a regular basis, and hence in no time their brand became very popular in the market. The main reasons for the success of their business are superior quality and low price. Their business was running very well.

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But one day, the flour mill caught fire, and as a result they had to suffer a heavy loss. However, Salman and Ram did not lose their heart, and worked even harder. Gradually, their business was back to normal. Now, they are fully satisfied with their business.

Quoting the lines from the above para, explain any four characteristics of business. **(6 marks)**

## Answer 2

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### Characteristics of business:

(i) An economic activity

*“After completing their graduation, Salman and Ram decided to set up a flour mill to earn income.”*

(ii) Profit earning

*“They sold these under the brand name ‘Desh ka Atta’ and earn a reasonable profit of 10% on cost.”*

(iii) Dealings in goods and services on a regular basis

*“They worked very hard to flourish the business on*



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a regular basis ...”

(iv) Element of risk

“..., the flour mill caught fire, and as a result they had to suffer a heavy loss.” (*Explain these characteristics*)

# **Objectives of Business and the Role of Profit in Business**

Every business is directed to the achievement of certain objectives. Objectives are defined as ends which a business firm seeks to achieve by its operations, e.g., increasing sales by 10 per cent, earning 20 per cent Return on Investment (RoI), etc. Objectives provide directions for all decisions and actions.

Since a business has to balance a number of needs and goals, and has to satisfy different individuals and groups, it requires multiple objectives. If a business firm follows only one objective, say profit maximisation, it cannot achieve excellence. Objectives have to be specific in every area and sphere of business. This is essential for its own survival and prosperity.

## OBJECTIVES OF BUSINESS

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graph TD; A[OBJECTIVES OF BUSINESS] --> B[Economic Objectives]; A --> C[Social Objectives]; B --> B1[1. Earning profits]; B --> B2[2. Market standing]; B --> B3[3. Innovation]; B --> B4[4. Optimum utilization of physical and financial resources]; B --> B5[5. Increasing productivity]; C --> C1[1. Production and supply of quality goods and services]; C --> C2[2. Avoidance of anti-social and unfair trade practices]; C --> C3[3. Generation of employment]; C --> C4[4. Welfare of employees]; C --> C5[5. Community service];
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### Economic Objectives

1. Earning profits
2. Market standing
3. Innovation
4. Optimum utilization of physical and financial resources
5. Increasing productivity

### Social Objectives

1. Production and supply of quality goods and services
2. Avoidance of anti-social and unfair trade practices
3. Generation of employment
4. Welfare of employees
5. Community service

# Economic Objectives

Since business is an economic activity, its main objectives are economic objectives. The economic objectives of business are as follows:

## 1. Earning profits

*Profitability refers to profit in relation to capital investment.* One of the main economic objectives of business is to earn profits on the capital employed. Every business must earn a reasonable profit which is so important for its survival and growth.

## **2. Market standing**

*Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and serving them to their satisfaction.*

### **3. Innovation**

*Innovation is the introduction of new ideas or methods in the way something is done or made.*

There are two kinds of innovation in every business:

- (i) innovation in product or services; and
- (ii) innovation in various skills and activities needed to supply products and services.

No business enterprise can flourish in a competitive world without innovation. Therefore, innovation becomes an important objective.

## 4. Optimum utilization of physical and financial resources

Every business requires *physical resources*, like plants, machines, offices, etc., and *financial resources*, i.e., funds to be able to produce and supply goods and services to its customers.

The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.

## **5. Increasing productivity**

*Productivity is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency.*

In order to ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources.

# Social Objectives

Social objectives of business are centred around the interests of society and based on the slogan of 'social welfare'.

## **1. Production and supply of quality goods and services**

Business should produce and supply products of proper quality to satisfy customer expectations. Quality may mean durability as in the case of radio, TV, refrigerator, etc. or purity as in the case of medicine, or safety as in the case of pressure cooker, electric appliances, etc. Modern consumers prefer to buy quality products. He looks for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewellery, etc.

## 2. Avoidance of anti-social and unfair trade practices

A businessman should avoid hoarding, black-marketing, over-charging, misleading advertisements, etc. to mint money. Such unfair practices destroy the goodwill and image of the business and may be punishable also.



### **3. Generation of employment**

Business should generate employment opportunities to the disadvantaged sections of the society (e.g., differently abled people).

#### **4. Welfare of employees**

Business should provide good working conditions and pay satisfactory wages/salaries to its employees.

## **5. Community service**

Large business units should undertake community services like setting up charitable dispensaries, schools, etc. For example, Steel Authority of India contributes regularly for agriculture, industry, education, health care, dairy, poultry, fisheries and drinking water supply to the people living nearby to their steel plants.

## Extra Shots

### Multiple Objectives of Business

- **Manager performance and development:** Business enterprises need managers to conduct and coordinate business activity. Various programmes for motivating managers need to be implemented. Manager performance and development, therefore, is an important objective. The enterprises must actively work for this purpose.
- **Worker performance and attitude:** Workers' performance and attitudes determine their contribution towards productivity and profitability of any enterprise. Therefore, every enterprise must aim at improving its workers' performance. It should also try to ensure a positive attitude on the part of workers.
- **Social responsibility:** Social responsibility refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.

# Role of Profit in Business

The basic objective of every business is profit maximisation. Profit may be regarded as an essential objective of business because of the following reasons:

- 1. For long-term survival of business:** Profit helps a business to continue to exist for a long period. In the absence of profit, the establishment of a particular business loses its justification.
- 2. For growth and expansion of business:** All businessmen want their businesses to expand and grow. For growth and expansion of business, additional capital is needed. Retained earnings is a very good source of capital.

3. **For increasing efficiency:** Profit motivates the owners as well as the workers to do their best. As a result of higher profits, employees get adequate compensation.
4. **For building prestige and recognition:** For gaining prestige in the society, every business has to satisfy all the parties concerned. It has to supply good quality products/services at reasonable price to customers, pay adequate remuneration to employees, pay sufficient dividend to the shareholders etc. All this is possible only if the business is earning sufficient profits.

- 5. For covering costs and risks of the business:**  
It is in the hope of earning sufficient profits that a businessman invests money in business and undertakes risks.



### Top Tip

Profit maximisation cannot be the sole objective of business. Profit maximisation objective may ignore the interests of various stakeholders especially consumers. Unfair trade practices such as hoarding, black-marketing or adulteration may be followed to maximise profits. However, no business can be successful in the long-run if such practices are adopted because the consumers may raise voice against the exploitation; and the business enterprises then might lose business and reputation. The early concept of business was based on the goal of profit maximisation as reflected in the slogan 'the business of business is to do business'. However, the modern concept of business is founded on the goal of 'profits through service'.

# **Business Risks – Concept, Nature and Causes**

# Concept and Types of Business Risks

**The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.**

*For example, demand for a firm's product may decline due to change in taste and fashion of customers or due to increased competition. Decrease in demand will result in low sales and hence low profits or even losses.*



1. Production (weather, disease/pests, field loss, spoilage)
2. Price/Market (reduced premiums, high input prices, etc.)
3. Casualty (fire, weather and theft)
4. Technology (performance failure, obsolete machinery)
5. Relationship (landlord, lender, supplier and buyer)
6. Legal/Regulatory (non-compliance with regulations contract rules or other laws)
7. Human (underperforming managers, injured employees)

# Types of Business Risks

Business enterprises constantly face two types of risk : speculative and pure.

- 1. Speculative risks:** Speculative risks involve both the possibility of gain, as well as, the possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers. Favourable market conditions are likely to result in gains, whereas, unfavourable ones may result in losses.
- 2. Pure risks:** Pure risks involve only the possibility of loss or no loss. The chance of fire, theft or strike are examples of pure risks.

Their occurrence may result in loss, whereas, non-occurrence may explain absence of loss, instead of gain.

# Nature of Business Risks

Nature of business risks can be understood in terms of their peculiar characteristics:

## **1. Business risks arise due to uncertainties.**

Uncertainty refers to the lack of knowledge about what is going to happen in future. Natural calamities, change in demand and prices, changes in government policies and prices, improvement in technology, etc., are some of the examples of uncertainty which create risks for business because the outcomes of these future events are not known.

## **2. Risk is an essential part of every business.**

No business can avoid risk. Risk can be minimised but cannot be eliminated. However, a business enterprise can minimise business risks by avoiding too much risky transactions, taking insurance policy, making provisions in the current earnings (e.g., provision for bad and doubtful debts), using preventing measures like firefighting devices, etc.

### **3. Degree of risk depends mainly upon the nature and size of business.**

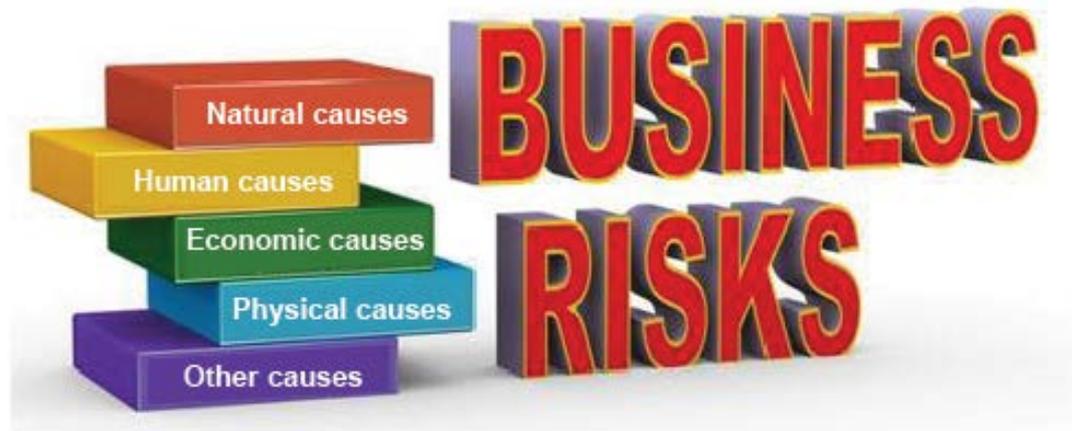
Nature of business (i.e., type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business. For example, a business dealing in fashionable items has a high degree of risk. Similarly, a large-scale business generally has a higher risk than what a small scale has.

## **4. Profit is the reward for risk taking**

'No risk, no gain' is an age-old principle, which applies to all types of business. Greater the risk, higher is the chance of profit. An entrepreneur undertakes risks under the expectation of higher profit. Profit is thus the reward for risk taking.

# Causes of Business Risks

Business risks arise due to a variety of causes, which are classified as follows:



## 1. Natural causes

Natural causes of business risks (e.g., flood, earthquake, lightning, heavy rains, famine, etc.) are beyond human control. They result in heavy loss of life, property and income.

## **2. Human causes**

Human causes include such unexpected events, like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.

### **3. Economic causes**

These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems, like rise in interest rate for borrowing, levy of higher taxes, etc., also come under these type of causes as they result in higher unexpected cost of operation or business.

## **4. Physical causes**

Mechanical defects or failures may also lead to losses. For example, bursting of boiler of machine may cause death or destruction.

## **5. Other causes**

These are unforeseen events, like political disturbances, fluctuations in exchange rates, etc. which lead to the possibility of business risks.

## Extra Shots

### Methods of Dealing with Risks

Although no business enterprise can escape the presence of risk, there are many methods a business enterprise can use to deal with risk situations. For instance, the enterprise may

- (a) decide not to enter into too risky transaction;
- (b) take preventive measures, like firefighting devices, to reduce risk;
- (c) take insurance policy to transfer risk to insurance company;
- (d) assume risk by making provisions in the current earnings as is the case of provision for bad and doubtful debts; or
- (e) share risks with other enterprises as manufacturers and wholesalers may do by agreeing to share losses which may be caused by falling prices.

- Statistical and loss data
- Specific risks for individual business lines
- Development goals



- Risk surveys
- Risk assessment
- Gravity evaluation
- Recommendations



- Insurance cover
- Insured values
- Limits
- Deductibles
- Specific arrangements

- Business continuity plans
- Risk management system
- Loss prevention



# Objective Type Questions 1.2

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## Question 1

\_\_\_\_\_ (speculative/pure) risks means chance of loss without any possibility of gain.

*(Fill up the blank with correct option)*



# Answer 1

---

Pure



## Question 2

---

\_\_\_\_\_ (speculative/pure) risks means chance of loss with possibility of gain.

*(Fill up the blank with correct option)*



# Answer 2

---

Speculative



## Question 3

---

ABC Ltd. is planting trees on the road side. It is trying to achieve \_\_\_\_\_ objectives of the business.

*(Fill up the blank with correct answer)*



# Answer 3

---

Social



## Question 4

---

Risks arise in business due to uncertain future.

*True/False? Give reason.*



## Answer 4

---

**True:** Business risks arise due to uncertainties. Natural calamities, change in demand and prices, etc. and create risks for business because these future events are not known in advance.



## Question 5

---

Profit is the reward for bearing risks.

*True/False? Give reason.*



## Answer 5

---

**True:** Greater the risk in a business, higher is the chance of profit.



## Question 6

---

Earning profits is the sole objective of business.

*True/False? Give reason.*



## Answer 6

---

**False:** Besides earning profits, the business should pursue social objectives also because business is an integral part of the society.



## Question 7

---

Risk is an essential element of every business activity.  
*True/False? Give reason.*



## Answer 7

---

**True:** No business can avoid risk. However, risk can be minimised through insurance.



## Question 8

---

Business risk is not likely to arise due to

*(Choose the correct alternative)*

- (a) Changes in government policy
- (b) Good management
- (c) Employee's dishonesty
- (d) Power failure



# Answer 8

---

(b) Good management



# Case Studies 1.2

---

## Question 1

Shreya and Vrinda joined together and established a partnership firm dealing in electronic goods. Each one of them looks after one particular department. They had made it certain that every Saturday they would hold a meeting and share the information on the activities of their respective departments. In one of their meetings, they discuss about some key areas on which they should focus their attention.

---

Shreya says, “we should focus on increasing productivity and profits through the best use of available resources.”

On the other hand, Vrinda says, “we should keep clear of the anti-social activities like adulteration, hoarding and profiteering, and contribute to the benefits of the society like opening charitable dispensary, educational institution, etc.

What are the objectives of business Shreya and Vrinda focusing on? Explain. **(6 marks)**



# Answer 1

---

A. Shreya is focusing on 'Economic Objectives' of business.

Economic objectives of business are centred around the personal profit of the business and are based on one slogan 'to earn maximum profits'.

(i) Profit earning

(ii) Increasing productivity *(Explain)*

B. On the other hand, Vrinda is focusing on “Social Objectives” of business.



---

Social objectives of business are centred around the interests of society and based on the slogan of ‘social welfare’. It is necessary that business should also pursue certain objectives desired by the people of the society because business is an integral part of society.

- (i) Avoidance of anti-social and unfair trade practices
- (ii) Community service *(Explain)*

## Question 2

---

Manjeet Pvt. Ltd. is a reputed company manufacturing computers. The company is earning a considerable profit. Both the proprietors and the employees are putting their best efforts to make good quality products available to the customers at a low price, paying its shareholders a good amount of dividends and the employees a reasonable remuneration. This contributes to the successful operations of the business. With increased profits over time, the company's foundation becomes strong, and it earns a good reputation in the society.

---

It utilises its profits to finance its growth and expansion requirements.

Explain the role of profit in business of Manjeet Pvt. Ltd. by quoting the lines from the above para. **(6 marks)**



## Answer 2

---

Role of profit in business of Manjeet Pvt. Ltd.:

- (i) Source of income: “... *paying its shareholders a good amount of dividends and the employees a reasonable remuneration.*”
- (ii) Indication of efficient working of business: “*This contributes to the successful operations of the business.*”
- (iii) Builds up reputation of business: “*With increased profits over time, the company’s foundation become strong, and it earns a good reputation in the society.*”
- (iv) Source of funds for meeting expansion requirements: “*It utilises its profits to finance its growth and expansion requirements.*”

## Question 3

---

Ganga Ltd. is a popular company manufacturing water coolers. Its product is very much liked by people in the market. The traders are in a race to become the company's distributors. The company had been earning huge profits for many years. However, in the year 2020, the company's half yearly report shows a great decline in the company's profit. The top management is worried about this. A team of specialists from outside is appointed to solve this serious problem. After a thorough examination, the specialists presented the following reasons for the decline in the profits of the company.

- 
- (i) Increase in competition and change in taste of the consumers.
- (ii) Theft of cash and goods by the employees.
- Identify and explain the two causes of decline in profits. **(3 marks)**

## Answer 3

---

Two causes of decline in profits:

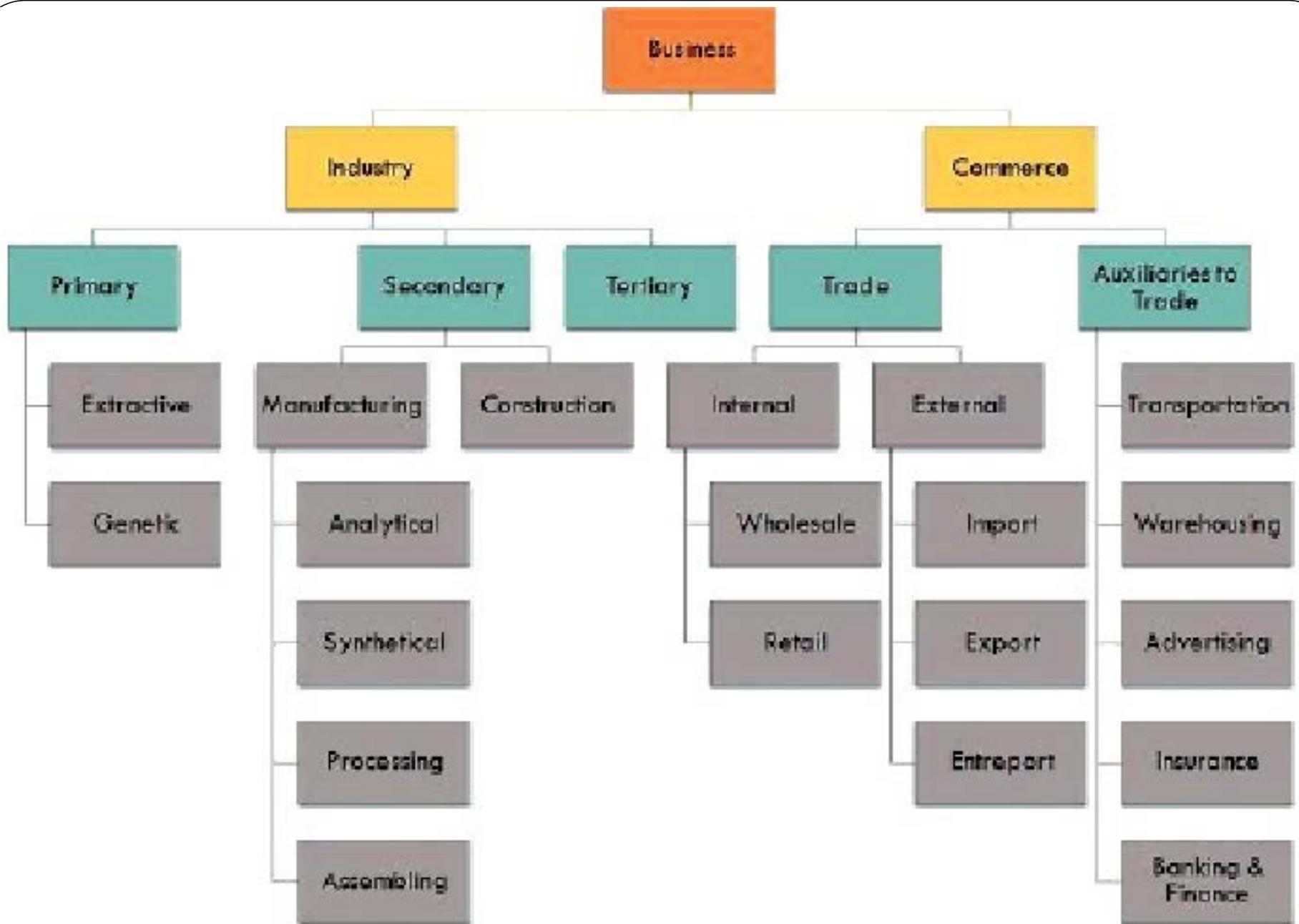
- (i) Economic causes: *“Increase in competition and change in taste of the consumers.”*
- (ii) Human causes: *“Theft of cash and goods by the employees.”* (Explain)



# **Classification of Business Activities**

Various business activities may be classified into two broad categories — industry and commerce.

- **Industry** is concerned with the production or processing of goods and materials.
- **Commerce** includes all those activities, which are necessary for facilitating the exchange of goods and services. On the basis of these two categories, we may classify business firms into industrial and commercial enterprises.



Business

Industry

Commerce

Primary

Secondary

Tertiary

Trade

Auxiliaries to Trade

Extractive

Genetic

Manufacturing

Construction

Analytical

Synthetical

Processing

Assembling

Internal

Wholesale

Retail

External

Import

Export

Entrepot

Transportation

Warehousing

Advertising

Insurance

Banking & Finance

# Industry

**Industry refers to economic activities, which are connected with conversion of resources into useful goods.**

Generally, the term 'industry' is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods, as well as, breeding and raising of animals.

The term 'industry' is also used to mean groups of firms producing similar or related goods. *For example,* cotton textile industry refers to all manufacturing units producing textile goods from cotton.

Similarly, electronic industry would include all firms producing electronic goods, and so on.

Further, certain services, like banking and insurance, are also referred to as industry, say banking industry, insurance industry, etc.

Industries may be divided into three broad categories namely primary, secondary and tertiary.

## **1. Primary industries**

These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc.

Primary industries are divided as follows:

**(i) Extractive industries:** These industries extract or draw products from natural sources. Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.

**(ii) Genetic industries:** These industries are engaged in breeding plants and animals for their use in further reproduction. Seeds and nursery companies are typical examples of genetic industries. In addition, activities of cattle breeding farms, poultry farms, and fish hatchery come under genetic industries.

## 2. Secondary industries

These are concerned with using materials, which have already been extracted at the primary state. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. *For example*, mining of iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry.

Secondary industries may be further divided as follows:

**(i) Manufacturing industries:** These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities. They bring out diverse finished products, that we consume, or use through the conversion of raw materials or partly

finished materials in their manufacturing operations. Manufacturing industries may be further divided into four categories on the basis of method of operation for production.

- ***Analytical industry*** which analyses and separates different elements from the same materials, as in the case of oil refinery.
- ***Synthetical industry*** which combines various ingredients into a new product, as in the case of cement.
- ***Processing industry*** which involves successive stages for manufacturing finished products, as in the case of sugar and paper.

- *Assembling industry* which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

**(ii) Construction industries:** These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.

### **3. Tertiary industries**

These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities. As business activities, these may be considered part of commerce because as auxiliaries to trade these activities assist trade.

Tertiary industries include transport, banking, insurance, warehousing, communication, packaging and advertising.

# Commerce

**Commerce includes all those activities, which are necessary for facilitating the exchange of goods and services.**

Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods is termed as trade. But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called auxiliaries to trade (or services) and include transport, banking, insurance, communication, advertisement, packaging and warehousing.

# Trade

**Trade refers to sale, transfer or exchange of goods.**

Trade is an essential part of commerce. It helps in making the goods produced available to the consumers or users. These days goods are produced on a large scale and it is difficult for producers to themselves reach out to individual buyers for selling their products. Businessmen are engaged in trading activities to make the goods available to consumers in different markets. In the absence of trade, it would not be possible to undertake production activities on a large scale.

Trade may be classified into two broad categories – internal and external.

**1. Internal trade:** Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country. This may further be divided into wholesale and retail trade.

**(i) Wholesale trade:** It refers to buying and selling of goods and services in large quantities for the purpose of resale or intermediate use. Traders dealing in wholesale trade are called wholesalers.

**(ii) Retail trade:** When goods are purchased and sold in comparatively smaller quantities, for final consumption it is referred to as retail trade.

**2. External trade:** External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries.

**(i) *Import trade:*** If goods are purchased from another country, it is called import trade.

**(ii) *Export trade:*** If goods are sold to other countries, it is known as export trade.

**(iii) *Entrepot trade:*** When goods are imported for export to other countries, it is known as entrepot trade.

## Auxiliaries to Trade

- 1. Banking and Finance:** Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance.
  - Commercial banks, generally lend money by providing overdraft and cash credit facilities, loans and advances.
  - Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders.

- In foreign trade, commercial banks help exporters in collecting money from importers.
- Commercial banks also help promoters of companies to raise capital from the public.

2. **Insurance:** Business involves various types of risks:

- Factory building, machinery, furniture, etc., must be protected against fire, theft and other risks.
- Material and goods held in stock or in transit are subject to the risk of loss or damage.
- Employees are also required to be protected against the risks of accident and occupational hazards.

Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

**3. Transportation:** Transport (road, rail or coastal shipping) facilitates movement of

- raw materials to the place of production, and
- the finished goods from factories to the place of consumption.

Transportation makes for speed and efficiency in exchange. It is because of transportation that a producer can sell his goods in different parts of the world. It creates place utility.

**4. Warehousing:** Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for the storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed. Prices are, thereby, maintained at a reasonable level through continuous supply of goods.

5. **Communication:** Communication services like postal services and telephone facilities are helpful to the business for:

- establishing links with the outside world, viz., suppliers, customers, competitors, etc.
- for quick exchange of information.

The electronic media is mainly responsible for this transformation.

**6. Advertising:** Advertising is one of the most important methods of promoting the sale of products, particularly, consumer goods, like electronic and automobile goods, soaps, detergents, etc. Most of these goods are manufactured and supplied in the market by numerous firms — big or small. It is practically impossible for producers and traders to contact each and every customer. Thus, for promoting sales, information about the goods and services available, their features, price, etc., must reach potential buyers. Also, there is a need to persuade potential buyers about the uses, quality, prices, competitive information about the goods and services etc. Advertising helps in providing information about available goods and services and inducing customers to buy particular items.

# **Role of commerce in removal of hindrances in the process of exchange**

Commerce includes two types of activities, viz.,

(i) trade and (ii) auxiliaries to trade.

Buying and selling of goods is termed as trade. But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called services or auxiliaries to trade and include transport, banking, insurance, communication, advertisement, packaging and warehousing.

Commerce provides the necessary link between producers and consumers. It embraces all those activities, which are necessary for maintaining a free flow of goods and services.

Thus, all activities involving the removal of hindrances in the process of exchange are included in commerce. The hindrances may be in respect of persons, place, time, risk, finance, etc.

1. **Trade** removes '*hindrance of persons*' by making the goods available to the consumers from the producers.
2. **Transportation** removes '*hindrance of place*' by moving goods from the places of production to the markets for sale.
3. **Storage and warehousing** activities remove the '*hindrance of time*' by facilitating holding of stock of goods to be sold as and when required.
4. **Insurance** removes '*hindrance of risk*'. Goods held in stock, as well as, goods in course of transport are subject to a risk of loss or damage due to theft, fire, accidents, etc. Protection against these risks is provided by insurance of goods.

**5. Banking** removes '*hindrance of finance*'. Capital required to undertake the above activities is provided by banking and financing institutions.

**6. Advertising** removes '*hindrance of information*'. Advertising makes it possible for producers and traders to inform consumers about the goods and services available in the market.

**Conclusion:** Commerce is said to consist of activities of removing the hindrances of persons, place, time, risk, finance and information in the process of exchange of goods and services.

## Extra Shots

### **Starting a Business — Basic Factors**

Starting a business enterprise is similar to any other human effort in which resources are employed to achieve certain objectives. Successful results in business depend largely upon the ability of the entrepreneurs or the starters of a new business to anticipate problems and solve them with minimum cost. This is especially true of the modern business world where competition is very tough and risks are high. Some of the problems, which business firms encounter, are of basic nature. For example, to start a factory, plans must be made about the location of the business, the possible number of customers, the kind of equipment required and the amount of money needed to procure them, the shop layout, purchasing and financing needs, and hiring of workers for its effective implementation. These problems become more complex in a big business. However, some of the basic factors, which must be considered by anybody who is to start the business are as follows.

- **Selection of nature and type of business:** The first thing to be decided by an entrepreneur is the nature and type of business to be undertaken. He/she will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.
- **Size of the firm:** Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favour a large size, whereas, others tend to restrict the scale of operation. If the entrepreneur is confident that the demand for the proposed product is likely to be good over time and he/she can arrange the necessary capital for business, he/she will start the operation at a large scale. If the market conditions are uncertain and risks are high, a small size business would be better choice.

- **Choice of form of ownership:** With respect to ownership, the business organisation may take the form of a sole proprietorship, partnership, or a joint stock company. Each form has its own merits and demerits. The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business, transferability of interest and so on.
- **Location of business enterprise:** An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in high cost of production, inconvenience in getting, right kind of production inputs or serving the customers in the best possible way. Availability of raw materials and labour; power supply and services, like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.

- **Financing the proposition:** Financing is concerned with providing the necessary capital for starting, as well as, for continuing the proposed business. Capital is required for investment in fixed assets, like land, building, machinery and equipment and in current assets, like raw materials, books, debts, stock of finished goods, etc. Capital is also required for meeting day-to-day expenses. Proper financial planning must be done to determine (a) the requirement of capital, (b) source from where the capital will be raised and (c) the best ways of utilising the capital in the firm.
- **Physical facilities:** Availability of physical facilities, including machines and equipment, building and supportive services is an important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.

- **Plant layout:** Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities. Layout means the physical arrangement of machines and equipment needed to manufacture a product.
- **Competent and committed worked force:** Every enterprise needs competent and committed workforce to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he/she must identify the requirement of skilled and unskilled workers and managerial staff. Plans should also be made about how the employees will be trained and motivated to give their best performance.
- **Tax planning:** Tax planning has become necessary these days because there are a number of tax laws in the country and they influence almost every aspect of the functioning of modern business. The founder of the business has to consider in advance the tax liability under various tax laws and its impact on business decisions.

- **Launching the enterprise:** After the decisions relating to the above mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilising various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.

# Objective Type Questions 1.3

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## Question 1

Choose the correct alternative:

Column I	Column II
(i) The service which helps in removing hindrance of knowledge.	A. Advertising
(ii) The service which helps in removing hindrance of place.	B. Transport
(iii) The service which helps in removing hindrance of time.	C. Insurance
(iv) The service which helps in removing hindrance of risk.	D. Warehousing



- 
- (a) (i) – A, (ii) – B, (iii) – D, (iv) – C  
(b) (i) – C, (ii) – B, (iii) – D, (iv) – A  
(c) (i) – A, (ii) – D, (iii) – B, (iv) – C  
(d) (i) – C, (ii) – D, (iii) – B, (iv) – A



# Answer 1

---

(a) (i) – A, (ii) – B, (iii) – D, (iv) – C



## Question 2

---

Which of the broad categories of industries covers oil refinery and sugar mills? *(Choose the correct alternative)*

- (a) Primary
- (b) Secondary
- (c) Tertiary
- (d) None of them



# Answer 2

---

(b) Secondary



## Question 3

---

Which of the following cannot be classified as an auxiliary to trade? *(Choose the correct alternative)*

- (a) Mining
- (b) Insurance
- (c) Warehousing
- (d) Transport



# Answer 3

---

(a) Mining



## Question 4

---

The industries which provide support services to other industries are known as *(Choose the correct alternative)*

- (a) Primary industries
- (b) Secondary industries
- (c) Commercial industries
- (d) Tertiary industries



# Answer 4

---

(d) Tertiary industries



## Question 5

---

‘Fishing’ is what type of Industry?

*(Choose the correct alternative)*

- (a) Primary industry
- (b) Secondary industry
- (c) Commercial industry
- (d) Tertiary industry



# Answer 5

---

(a) Primary industry



## Question 6

---

Industry and commerce are interchangeable terms.

*True/False? Give reason.*



## Answer 6

---

**False:** Industry refers to economic activities which are connected with conversion of resources into useful goods while commerce includes all those activities which are necessary for facilitating the exchange of goods and services.



## Question 7

---

Trade between two countries is known as internal trade. *True/False? Give reason.*



## Answer 7

---

**False:** Trade between two countries is called 'External Trade'.



## Question 8

---

Conversion of cotton into cloth is an example of genetic industry.  
*True/False? Give reason.*



# Answer 8

---

**False:** It is a manufacturing industry.



## Question 9

---

Name the business activity which is concerned with conversion of resources into useful products.



# Answer 9

---

Industry



## Question 10

---

Name the category of industry which involves breeding or reproduction of plants and animals.



# Answer 10

---

Genetic industries.



## Question 11

---

Name the manufacturing industry in which TV sets or computers are produced.



# Answer 11

---

Assembling industry



## Question 12

---

Name the auxiliary to trade which removes the hindrance of time.



# Answer 12

---

Warehousing or storage



## Question 13

---

Name the auxiliary to trade which removes the hindrance of exchange.



# Answer 13

---

Banking and finance



## Question 14

---

Name the commercial activity that removes the hindrance of knowledge.



# Answer 14

---

## Advertising



# Question 15

---

Why do we insure goods?



## Answer 15

---

We insure goods to minimise the risk of loss. Goods may be damaged or destroyed by theft, fire and natural calamities in the process of transport and storage. Insurance protects against such loss.



## Question 16

---

Name the type of manufacturing industry in which one material is separated into several useful products.



# Answer 16

---

Analytical industry



## Question 17

---

Name the type of manufacturing industry wherein two or more ingredients are combined into one product.



# Answer 17

---

Synthetic industry



## Question 18

---

Name the type of manufacturing industry wherein a finished product is produced through successive stages.



# Answer 18

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Processing industry



## Question 19

---

Is furniture making a manufacturing industry? Why?



## Answer 19

---

Yes, because manufacturing industries convert raw materials or semi-finished products into finished products (timber into furniture).



## Question 20

---

\_\_\_\_\_ industries provide support services to primary and secondary industries.

*(Fill up the blank with correct answer)*



# Answer 20

---

Tertiary



## Question 21

---

Why is mining called a primary industry?



## Answer 21

---

Because it is connected with extraction of natural resources.



## Question 22

---

Why is construction industry called a secondary industry?



## Answer 22

---

Because this industry is engaged in construction of buildings, bridges or roads using bricks, sand, cement, iron and steel, wires, etc. which are natural resources.



## Question 23

---

Why is insurance known as a tertiary industry?



## Answer 23

---

Because insurance provides facility of removing hindrance of risk of loss or damage of goods due to theft, fire, accidents, etc.



## Question 24

---

\_\_\_\_\_ facilitate buying and selling of goods and services. *(Fill up the blank with correct answer)*



# Answer 24

---

Auxiliaries to trade



## Question 25

---

Manufacturing industries are known as secondary industries because \_\_\_\_\_.

*(Fill up the blank with correct answer)*



## Answer 25

---

manufacturing industries convert raw materials or semi-finished products into finished products, e.g., timber into furniture.



## Question 26

---

Banking is called a tertiary industry because

\_\_\_\_\_.

*(Fill up the blank with correct answer)*



## Answer 26

---

banks provide service facility of providing funds to businessmen.



## Question 27

---

\_\_\_\_\_ is concerned with holding goods in stock for sale in future.

*(Fill up the blank with correct answer)*



# Answer 27

---

## Warehousing



## Question 28

---

\_\_\_\_\_ involves movement of goods from one place to another.

*(Fill up the blank with correct answer)*



# Answer 28

---

## Transportation



## Question 29

---

Is dairying a genetic or an extractive industry? Why?



## Answer 29

---

Genetic industry, because it involves breeding or reproduction of animals.



# Question 30

---

Match the following:

Column I	Column II
(i) The trade in which goods are bought from other countries.	A. Import trade
(ii) The economic activities concerned with extraction, production, processing or fabrication of products.	B. Warehousing
(iii) The trade in which goods are imported and exported to some other country.	C. Entrepot trade
(iv) The branch of commerce which removes the hindrance of time.	D. Industry

# Answer 30

---

(i) – A, (ii) – D, (iii) – C (iv) – B



# Case Studies 1.3

---

## Question 1

Shree Radhey Industries Pvt. Ltd. is a large company which produces agricultural products like sugarcane, cotton, etc. Instead of selling these agricultural products in the market, the company uses these as raw materials to produce sugar and cloth in its own established sugar mill and cloth mill at some rural area where there was a high unemployment. In this way, the company provided employment to about 200 local people.

To which type and sub-type of industries are related the different products described in the above para? Explain.

**(4 marks)**

# Answer 1

---

- (i) Sugarcane and cotton – Extractive industries  
(Primary industries)

Primary industries industries are connected with the extraction and production of natural resources, and reproduction and development of living organisms, plants, etc.

Extractive industries extract or draw out various products from natural resources such as earth, soil, water, etc. Farming, mining, fishing, hunting, lumbering, oil extraction, etc. are examples of extractive industries.

---

(ii) Sugar and cloth — Processing industries  
(Secondary industries)

Secondary industries are concerned with using the materials extracted at the primary stage to produce goods for final consumption or for further processing by other industrial units.

Processing industries are manufacturing industries which involve successive stages for manufacturing finished products (e.g., sugar, cloth, paper, etc.).

## Question 2

---

Farhan, a young man, wants to provide employment to the local people of his village. He decided to do the wholesale business of mobile phones made by the latest technique. But so many questions began to crop up in his mind: how will the goods be brought from distant places, how will the finance be arranged, and how will the information on his modern business be conveyed to the people? He consulted a business expert, Mr. Balram who gave him information on the auxiliaries to trade, which could solve his problem. Farhan understood what the expert told him. He employed 50 workers and started his business.

- 
- (a) Which economic activity is Farhan going to do?
  - (b) On which part of business was the information given to Farhan by the business expert?
  - (c) If we add the answer of (a) to the answer of (b) which part of business shall we have?
  - (d) Explain the auxiliaries to trade which may solve the problem of Farhan, as suggested by the business **(6 marks)**

## Answer 2

---

- (a) Trade, which refers to buying and selling of goods and services with the objective of earning profit.
- (b) Auxiliaries to trade – activities which are meant for assisting trade, i.e., services.
- (c) Commerce, which includes all those activities which are necessary for facilitating the exchange of goods and services. (Commerce = Trade + Auxiliaries to trade)
- (d) (i) Transportation removes hindrance of place by moving goods from the places of production to the markets for sale.

- 
- (ii) Banking removes hindrance of finance by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.
  - (iii) Advertising removes hindrance of information by informing consumers about the goods and services available in the market.

## Question 3

---

MVT Construction Pvt. Ltd. deals in constructing building, bridges, roads and dams by using cement, steel, bricks and wood. There are 1000 employees in all working in this company. The managing director of the company, Mr. Shyamsundar, takes full care of the quality of work done. Recently, the company got a contract of constructing five big buildings, two bridges, one long road and one dam. The company has got a special division also, which owns one hundred trucks. These trucks are used for transporting goods on hire. This division is working quite successfully under the supervision of the divisional manager, Radhika Dasi.

---

Identify and state two types of industrial activities from the above para by quoting the lines. **(3 marks)**



## Answer 3

---

(i) *“MVT Construction Pvt. Ltd. deals in constructing building, bridges, roads and dams by using cement, steel, bricks and wood.”*

Secondary industries – These industries are concerned with using the materials extracted at the primary stage to produce goods for final consumption or for further processing by other industrial units.

(ii) *“The company has got a special division also, which owns one hundred trucks.”*



---

Tertiary or service industries – These industries provide services facilities. It includes transport, communication, banking, insurance, warehousing, advertising, etc.

## Question 4

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Dr. Rajiv Mishra is working against the post of a senior doctor in a government hospital. He does not discriminate between the rich and poor while treating his patients medically. When he returns home from the hospital, he attends to the poor patients at home free of cost between 6 pm to 8 pm. Besides, he gives them the information about the employment opportunities. He advises many young people to go into the fields of advertising and transportation. They went into these fields and remarkably succeeded there.

- 
- (i) What type of activities does Dr. Rajiv Mishra perform in the hospital and at home?
- (ii) Explain the auxiliaries to trade mentioned in the above para. **(4 marks)**

## Answer 4

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(i) *Working in a government hospital – An economic activity*

*Attending to the poor patients at home free of cost – A non-economic activity*

(ii) (a) Transportation: Transport (road, rail or coastal shipping) facilitates movement of raw materials to the place of production, and the finished goods from factories to the place of consumption. Transportation makes for speed and efficiency in exchange. It is because of transportation that a producer can sell his goods in different parts of the world. It creates place utility.

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(b) Advertising: Advertising brings goods and services to the knowledge of prospective buyers. With the help of such knowledge, consumers can obtain better value for their money. Thus, advertising helps to promote the sale of products like electronic goods, automobiles, soaps and detergents, etc. by providing information about them.

# **History of Trade and Commerce in India**

The economic and commercial evolution of any land depends upon its physical environment. This stands true for the Indian subcontinent as a whole which has Himalayas in the North bordered by water in the South.

A network of roads merging into the Silk Route helped in establishing commercial and political contacts with adjoining foreign kingdoms and empires of Asia, in particular, and the world, in general.

The maritime routes linked the east and the west by sea and were used for the trade of spices and known as 'spice route'. Due to the flow of wealth through these routes, the chief kingdoms, important trade centres and the industrial belt flourished, which in turn further facilitated the progress of domestic and international trade in ancient India.

Trade and commerce have played a vital role in making India to evolve as a major actor in the economic world in ancient times. Archaeological evidences have shown that trade and commerce was the mainstay of the economy of ancient India carried out by water and land. Commercial cities like Harappa and Mohenjodaro were founded in the third millennium B.C. The civilisation had established commercial connections with Mesopotamia and traded in gold, silver, copper, coloured gemstones, beads, pearls, sea shells, terracotta pots, etc. The period was marked by substantial commercial activities and urban development. Political economy and military security during ancient times united most of the Indian subcontinent and trade regulations were carefully planned.

There were diverse types of coins and weighing practices which used to vary from place to place with the help of money changers and by resorting to certain commonly accepted weights and measures.

# Indigenous Banking System

As economic life progressed, metals began to supplement other commodities as money because of its durability and divisibility. As money served as a medium of exchange, the introduction of metallic money and its use accelerated economic activities.

Documents such as **Hundi** and **Chitti** were in use for carrying out transactions in which money passed from hand to hand. Hundi as an instrument of exchange, which was prominent in the subcontinent, involved a contract which — (i) warrant the payment of money, the promise or order which is unconditional  
(ii) capable of change through transfer by valid negotiation.

# Hundi as practised by Indian Merchant Communities

Name of Hundi	Broader Classification	Functions of Hundi
Dhani-jog	Darshani	Payable to any person—no liability over who received payment.
Sah-jog	Darshani	Payable to a specific person, someone 'respectable'. Liability over who received payment.
Firman-jog	Darshani	Hundi made payable to order.
Dekhan-har	Darshani	Payable to the presenter or bearer.
Dhani-jog	Muddati	Payable to any person—no liability over who received payment, but payment over a fixed term.
Firman-jog	Muddati	Hundi made payable to order following a fixed term.
Jokhmi	Muddati	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the costs, and the drawee carries no liability.

Indigenous banking system played a prominent role in lending money and financing domestic and foreign trade with currency and letter of credit. With the development of banking, people began to deposit precious metals with lending individuals functioning as bankers or Seths, and money became an instrument for supplying the manufacturers with a means of producing more goods.

Agriculture and the domestication of animals were important components of the economic life of ancient people. Due to the favourable climatic conditions they were able to raise two or sometimes three crops in a year. In addition to this, by resorting to weaving cotton, dyeing fabrics, making clay pots, utensils, and handicrafts,

sculpting, cottage industries, masonry, manufacturing, transports (i.e., carts, boats and ships), etc., they were able to generate surpluses and savings for further investment.

Workshops (Karkhana) were prominent where skilled artisans worked and converted raw materials into finished goods which were high in demand. Family-based apprenticeship system was in practice and duly followed in acquiring trade-specific skills. The artisans, craftsmen and skilled labourers of different kinds learnt and developed skills and knowledge, which were passed on from one generation to another.

# Rise of Intermediaries

Intermediaries played a prominent role in the promotion of trade. It comprised commission agents, brokers and distributors both for wholesale and retail goods.

They provided considerable financial security to the manufacturers by assuming responsibility for the risks involved, especially in foreign trade. An expanding trade brought in huge amounts of silver bullion into Asia and a large share of that bullion gravitated towards India.

The institution of Jagat Seths also developed and exercised great influence during the Mughal period and the days of the East India Company.

Bankers began to act as trustees and executors of endowments.

Foreign trade was financed by loans. However, the rate of interest for longer voyages was kept high in view of the huge risk involved.

The emergence of credit transactions and availability of loans and advances enhanced commercial operations.

The Indian subcontinent enjoyed the fruits of favourable balance of trade, where exports exceeded imports with large margins and the indigenous banking system benefitted the manufacturers, traders and merchants with additional capital funds for expansion and development.

Commercial and Industrial banks later evolved to finance trade and commerce and agricultural banks to provide both short-and long-term loans to finance agriculturists.

# Transport

Transport by land and water was popular in the ancient times. Trade was maintained by both land and sea. Roads as a means of communication had assumed key importance in the entire process of growth, particularly of the inland trade and for trade over land. The northern roadway route is believed to have stretched originally from Bengal to Taxila. There were also trade routes in the south spreading east and west. Trade routes were structurally wide and suitable for speed and safety.

Maritime trade was another important branch of global trade network.

Malabar Coast, on which Muziris is situated, has a long history of international maritime trade going back to the era of the Roman Empire. Pepper was particularly valued in the Roman Empire and was known as 'Black Gold'. For centuries, it remained the reason for rivalry and conflict between various empires and trade powers to dominate the route for this trade. It was in the search for an alternate route to India for spices that led to the discovery of America by Columbus in the closing years of 15th century and also brought Vasco da Gama to the shores of Malabar in 1498. Calicut was such a bustling emporium that it was even visited by Chinese ships to acquire items, like frankincense (essential oil) and myrrh (*fragrant resin used in perfumes, medicines*) from the Middle East, as well as, pepper, diamonds,

pearls and cotton from India. On the Coromandel Coast, Pulicat was a major port in the 17th century. Textiles were the principal export from Pulicat to Southeast Asia.

# Trading Communities

In different parts of the country, different communities dominated trade.

- **Punjabi** and **Multani** merchants handled business in the northern region, while the **Bhats** managed the trade in the states of Gujarat and Rajasthan.
- In western India, these groups were called **Mahajan**, **Chattis** were important traders from the South.
- In urban centres, such as Ahmedabad the Mahajan community collectively represented by their chief called **nagarseth**.
- Other urban groups included professional classes, such as **hakim** and **vaid** (physician), **wakil** (Lawyer), **pundit** or **mulla** (teachers), painters, musicians, calligraphers, etc.

# Merchant Corporations

The merchant community also derived power and prestige from guilds, which were autonomous corporations formed to protect the interests of the traders. These corporations, organised on formal basis, framed their own rules of membership and professional code of conduct, which even kings were supposed to accept and respect.

- Trade and industry taxes were also a major source of revenue. Traders had to pay octroi duties that were levied on most of the imported articles at varying rates. They were paid either in cash or in kind.
- Customs duties varied according to the commodities.

Tariffs varied from province to province.

- The ferry tax was another source of income generation. It had to be paid for passengers, goods, cattle and carts. The right to receive the labour tax was usually transferred to the local bodies.
- The guild chief dealt directly with the king or tax collectors and settled the market toll on behalf of its fellow merchants at a fixed sum of money. The guild merchants also acted as custodians of religious interests. They undertook the task of building temples and made donations by levying a corporate tax on their members. The commercial activity, thus, enabled big merchants to gain power in the society.

# Major Trade Centres

There were all kinds of towns-port towns, manufacturing towns, mercantile towns, the sacred centres, and pilgrimage towns. Their existence is an index of prosperity of merchant communities and professional classes. The following were the leading trade centres in ancient India:

1. **Pataliputra** (known as 'Patna' today): It was not only a commercial town, but also a major centre for export of stones.
2. **Peshawar**: It was an important exporting centre for wool and for the import of horses. It had a huge share in commercial transactions between India, China and Rome in the first century A.D.

3. **Taxila:** It served as a major centre on the important land route between India and Central Asia. It was also a city of financial and commercial banks. The city occupied an important place as a Buddhist centre of learning. The famous Taxila University flourished here.
4. **Indraprastha:** It was the commercial junction on the royal road where most routes leading to the east, west, south and north converged.
5. **Mathura:** It was an emporium of trade and people here subsisted on commerce. Many routes from South India touched Mathura and Broach.
6. **Varanasi:** It was well placed as it lay both on the Gangetic route and on the highway that linked North with the East. It grew as a major centre of

textile industry and became famous for beautiful gold silk cloth and sandalwood workmanship. It had links with Taxila and Bharuch.

7. **Mithila:** The traders of Mithila crossed the seas by boats, through the Bay of Bengal to the South China Sea, and traded at ports on the islands of Java, Sumatra and Borneo. Mithila established trading colonies in South China, especially in Yunnan.
8. **Ujjain:** Agate, carnelian, muslin and mallow cloth were exported from Ujjain to different centres. It also had trade relations through the land route with Taxila and Peshawar.
9. **Surat:** It was the emporium of western trade during the Mughal period.

Textiles of Surat were famous for their gold borders (zari). It is noteworthy that Surat hundi was honoured in far off markets of Egypt and Iran.

10. **Kanchi** (today known as Kanchipuram): It was here that the Chinese used to come in foreign ships to purchase pearls, glass and rare stones and in return they sold gold and silk.
11. **Madura**: It was the capital of the Pandayas who controlled the pearl fisheries of the Gulf of Mannar. It attracted foreign merchants, particularly Romans, for carrying out overseas trade.
12. **Broach**: It was the greatest seat of commerce in Western India. It was situated on the banks of river Narmada and was linked with all important marts by roadways.

- 13. Kaveripatta** (also known as Kaveripatnam): It was scientific in its construction as a city and provided loading, unloading and strong facilities of merchandise. Foreign traders had their headquarters in this city. It was a convenient place for trade with Malaysia, Indonesia, China and the Far East. It was the centre of trade for perfumes, cosmetics, scents, silk, wool, cotton, corals, pearls, gold and precious stones; and also for ship building.
- 14. Tamralipti:** It was one of the greatest ports connected both by sea and land with the West and the Far East. It was linked by road to Banaras and Taxila.

# Major Exports and Imports

**Exports** consisted of spices, wheat, sugar, indigo, opium, sesame oil, cotton, parrot, live animals and animal products—hides, skin, furs, horns, tortoise shells, pearls, sapphires, quartz, crystal, lapis, lazuli, granites, turquoise and copper etc.

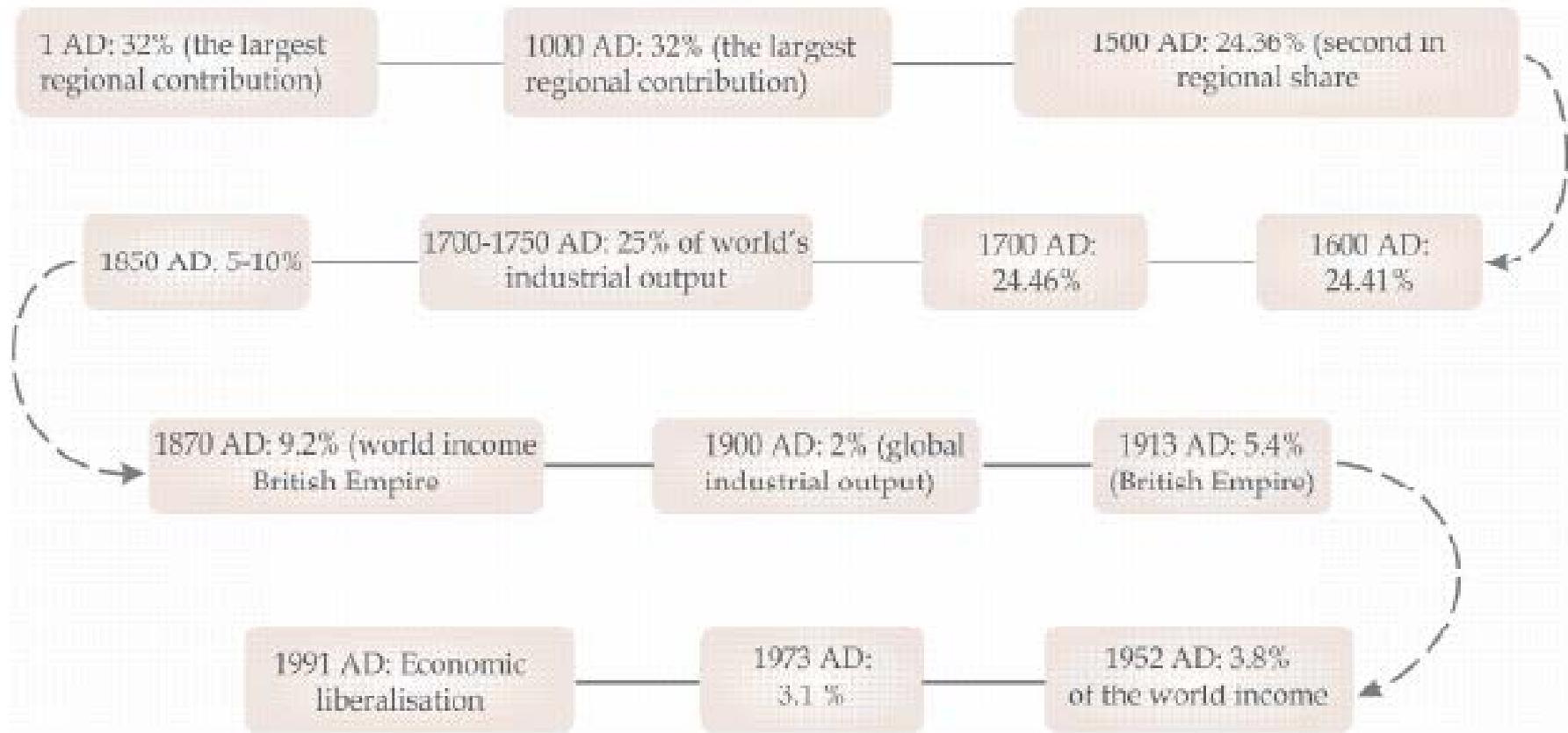
**Imports** included horses, animal products, Chinese silk, flax and linen, wine, gold, silver, tin, copper, lead, rubies, coral, glass, amber, etc.

## **Position of Indian Subcontinent in World Economy (1 AD up to 1991)**

Between the 1st and the 7<sup>th</sup> centuries CE, India is estimated to have the largest economy of the ancient and medieval world, controlling about one-third and one-fourth of the world's wealth (timeline). The country was often referred to as 'Swaranbhumi' and 'Swarndweep' in the writings of many travellers, such as Megasthenes, Faxian (Fa Hien), Xuanzang (Huen Tsang), Al Beruni (11th century), Ibn Batuta (11th century), Frenchman Francois (17<sup>th</sup> century) and others. They repeatedly refer to the prosperity of the country.

The pre-colonial period in Indian history was an age of prosperity for Indian economy and made the Europeans embark great voyage of discovery. Initially, they came to plunder but soon realised the rewards of trade in exchange of gold and silver.

The British empire began to take roots in India in the mid- 18<sup>th</sup> century. The East India Company used revenues generated by the provinces under its rule for purchasing Indian raw materials, spices and goods. Hence, the continuous inflow of bullion that used to come on account of foreign trade stopped. This changed the condition of the Indian economy from being an exporter of processed goods to the exporter of raw materials and buyer of manufactured goods.



## India begins to Reindustrialise

After Independence, the process of rebuilding the economy started and India went for centralised planning.

The First Five Year Plan was implemented in 1952. Due importance was given to the establishment of modern industries, modern technological and scientific institutes, space and nuclear programmes.

Despite these efforts, the Indian economy could not develop at a rapid pace. Lack of capital formation, rise in population, huge expenditure on defence and inadequate infrastructure were the major reasons. As a result, India relied heavily on borrowings from foreign sources and finally, agreed to economic liberalisation in 1991.

The Indian economy is one of the fastest growing economies in the world today and a preferred FDI destination.

Rising incomes, savings, investment opportunities, increased domestic consumption and younger population ensures growth for decades to come.

The high growth sectors have been identified, which are likely to grow at a rapid pace world over and the recent initiatives of the Government of India such as 'Make in India', Skill India', 'Digital India' and roll out of the Foreign Trade Policy (FTP 2015-20) is expected to help the economy in terms of exports and imports and trade balance.

## Extra Shots

### **Make In India**

'Make in India' is an initiative launched by the Government of India on 25 September 2014, to encourage national, as well as multinational companies to manufacture their products in India. The major objectives behind the 'Make in India' initiative are job creation and skill enhancement in 25 sectors of the economy, which are as follows:



1. Automobile
2. Automobile Components
3. Aviation
4. Biotechnology

5. Chemicals
6. Construction
7. Defence Manufacturing
8. Electrical Machinery
9. Electronic Systems
10. Food Processing
11. Information Technology and Business Process Management
12. Leather
13. Media and Entertainment
14. Mining
15. Oil and Gas
16. Pharmaceuticals
17. Port and Shipping
18. Railways
19. Renewable Energy
20. Roads and Highways
21. Space and Astronomy
22. Textiles and Garments
23. Thermal power
24. Tourism and Hospitality
25. Wellness



## **Economic and Non-economic Activities**

**Economic activities** are those activities which are undertaken to earn money and to create wealth, e.g. a teacher teaching in a school, etc. Business, profession and employment are economic activities.

**Non-economic activities** are those activities which are undertaken to satisfy social, psychological and emotional needs, e.g., a housewife cooking food for her family, a boy helping an old man cross the road, etc.

## **Concept and Characteristics of Business**

Business may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

# Characteristics of Business

# DPS PURE

1. **E**conomic activity
2. **P**rofit earning
3. **U**ncertainty of return
4. **E**lement of risk
5. **P**roduction or procurement of goods and services
6. **S**ale/exchange of goods and services for satisfaction of human needs
7. **D**ealings in goods and services on a regular basis

## Objectives of Business

### Economic objectives

1. Earning profits
2. Market standing
3. Innovation
4. Optimum utilization of physical and financial resources
5. Increasing productivity

## **Social objectives**

1. Supply of desired quality of products
2. Avoidance of anti-social and unfair trade practices
3. Generation of employment
4. Welfare of employees
5. Community service

## **Role of Profit in Business**

**PRES - G**

1. For long-term **S**urvival of business
2. For **G**rowth and expansion of business
3. For increasing **E**fficiency
4. For building **P**restige and recognition
5. For covering costs and **R**isks of the business

## **Business Risks**

Business risks refer to the possibility of inadequate profits or even losses due to uncertainties or unexpected events, e.g., decline in demand for a firm's product due to change in taste and fashion of customers.

## **Nature of Business Risks**

1. Business risks arise due to uncertainties.
2. Risk is an essential part of every business.
3. Degree of risk depends mainly upon the nature and size of business.
4. Profit is the reward for risk taking.

## **Causes of Business Risks**

1. Natural causes e.g., flood, earthquake.
2. Human causes e.g., theft, strikes.
3. Economic causes e.g., fluctuations in demand and prices, competition.
4. Other causes e.g., political disturbances.

## **Classification of Business Activities**

Various business activities may be classified into two broad categories— Industry and Commerce. Industry refers to economic activities which are connected with conversion of

resources into useful goods.

Commerce includes trade and auxiliaries to trade. Buying and selling of goods is termed as trade. Activities which are meant for assisting trade are known as auxiliaries to trade or services, e.g., transportation, communication, banking, insurance, etc

## **Types of Industries**

### **1.Primary industries**

- (i) *Extractive industries* e.g., farming, mining, fishing, oil extraction.
- (ii) *Genetic industries* e.g., poultry farms, pisciculture.

### **2.Secondary industries**

- (i) *Manufacturing industries*
  - Analytical industry e.g., an oil refinery separates crude oil into kerosene, diesel, lubricating oil, gasoline and petrol.
  - Synthetical industry e.g., cement, soaps, paints.
  - Processing industry e.g., sugar and paper.
  - Assembling industry e.g., car, computer.

(ii) *Construction industries* e.g., construction of buildings, bridges, roads.

3. **Tertiary industries:** These industries provide services facilities, e.g., transport, communication, banking, insurance, etc.

## **Types of Trade**

**1. Internal Trade:** Trade which takes place within a country.

(i) Wholesale trade (ii) Retail trade

**2. External Trade:** Trade between two or more countries. (i)

Import Trade (ii) Export Trade (iii) Entrepot Trade

## **Auxiliaries to Trade**

**CWA - BIT**

1. **B**anking

2. **I**nsurance

3. **T**ransportation

4. **W**arehousing

5. **C**ommunication

6. **A**dvertising

## **History of Trade and Commerce in India**

**Hundi:** It was an instrument of exchange which was used in

subcontinent. It involved a contract which warrants the payment of money, the promise or order which is unconditional; and capable of change through transfer by valid negotiation.

### **Indigenous banking system**

- Helped in lending money and financing domestic and foreign trade with currency and letter of credit.
- People began to deposit precious metals with bankers called seths.
- Money become an instrument for supplying the manufacturers with a means of producing more goods.

### **Rise of Intermediaries (Brokers, commission agents, distributions) for wholesale and retail trade**

- (i) Intermediaries provided security to the manufactures by taking responsibility for risk involved.
- (ii) Emergence of credit transactions and availability of loans and advances enhanced commercial operations.

**Transport:** Transport by land and water was popular in ancient times

### **Trading communities**

Different parts of the country had different communities dominated trade e.g. *Punjabi* and *Multani* merchants in Northern India, *Bhats* in Gujarat and Rajasthan, *Mahajans* from western India etc.

Merchant corporations were formed. Merchant communities derived power and prestige from guilds which were autonomous corporations formed to protect interest of traders. These corporations framed their own rules of membership and professional code of conduct which even kings were supposed to accept and respect.

The guild chief dealt directly with long or tax collections and settled the market toll on behalf of its fellow merchants at a fixed sum of money.

**Major Trade Centres:** Patliputra, Peshwar, Taxila, Indraprastha, Mathura, Varanasi, Mithila, Ujjain, Surat, Kanchi, Madura, Broach, Kaveri patta, Tamralipti.

### **Major Exports and Imports**

*Exports:* Spices, wheat, sugar, indigo, opium, sebame oil, cotton, live animals & animal products like hides, furs, pearls etc.

*Imports:* Horses, animal products, chinese silk flax and liner, gold, silver, tin etc.

### **Position of Indian sub-continent in the world economy**

After independence five year plans were initiated. Despite these efforts Indian economy could not develop at a rapid pace. Lack of capital formation, rise in population, huge expenditure on defence and inadequate infrastructure were major reasons.

Finally in 1991 India agreed to economic liberalisation. Because of this, now India is one of the fastest growing economies of the world. Initiatives like Digital India, Make in India, etc. are expected to help the economy in terms of exports and imports.



## Key Terms

**Economic activities** are those by which we can earn our livelihood.

**Non-economic activities** are those performed out of love, sympathy, sentiments, patriotism, etc.

**Business** may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

**Goods** may consist of consumption goods of daily use, such as sugar, ghee, pen, notebook, etc., or capital goods, like machinery, furniture, etc.

**Services** may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.

**Risk** is the uncertainty associated with an exposure to loss. No business can altogether do away with risks. It is caused by some unfavourable or undesirable event. Risks are related with factors,

like changes in consumer taste and fashion, changes in method of production, strike or lockout at workplace, increased competition in market, fire, theft, accidents, natural calamities, etc.

**Profession** includes those economic activities which require application of special knowledge and skills in the occupation. In every profession, guidelines or codes of conduct laid down by professional bodies have to be followed. Those engaged in professions are known as professionals, e.g. doctors, C.A., etc.

**Employment** refers to the occupation in which people work for others and get remuneration (wages/salaries) in return. Those who are employed by others are known as employees.

**Market standing** refers to the position of an enterprise in relation to its competitors.

**Innovation** is the introduction of new ideas or methods in the way something is done or made.

**Productivity** is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency.

**Economic Objectives** – Since business is an economic activity,

its main objectives are economic objectives. The main economic objective of business is earning profits. Profitability refers to profit in relation to capital investment. Every business must earn a reasonable profit which is so important for its survival and growth. **Social objectives** of business are centred around the interests of society and based on the slogan of 'social welfare'. It is necessary that business should also pursue certain objectives desired by the people of the society because business is an integral part of society.

**Social responsibility** refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.

**Business risk** refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

**Speculative risks** involve both the possibility of gain, as well as, the possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers.

**Pure risks** involve only the possibility of loss or no loss. The chance of fire, theft or strike are examples of pure risks. Their occurrence may result in loss, whereas, non-occurrence may explain absence of loss, instead of gain.

**Industry** is concerned with the production or processing of goods and materials.

**Primary industries** – These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc.

**Extractive industries** – These industries extract or draw products from natural sources, e.g. farming, mining, lumbering, hunting and fishing operations.

**Genetic industries** – These industries are engaged in breeding plants and animals for their use in further reproduction, e.g. Seeds and nursery companies, activities of cattle breeding farms, poultry farms, fish hatchery, etc.

**Secondary industries** – These are concerned with using materials, which have already been extracted at the primary state, e.g. manufacturing of steel.

**Manufacturing industries** – These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities.

**Analytical industry** which analyses and separates different elements from the same materials, as in the case of oil refinery.

**Synthetical industry** which combines various ingredients into a new product, as in the case of cement.

**Processing industry** which involves successive stages for manufacturing finished products, as in the case of sugar and paper.

**Assembling industry** which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

**Construction industries** – These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.

**Tertiary industries** – These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities. Tertiary industries include transport, banking, insurance, warehousing, communication, packaging and advertising.

**Commerce includes** all those activities, which are necessary for facilitating the exchange of goods and services. Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade.

Trade refers to sale, transfer or exchange of goods.

**Auxiliaries to trade (or services)** – There are a lot of activities that are required to facilitate the purchase and sale of goods. These are called auxiliaries to trade (or services) and include transport, banking, insurance, communication, advertisement, packaging and warehousing.

**Internal trade** – Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country.

**Wholesale trade** refers to buying and selling of goods and services in large quantities for the purpose of resale or intermediate use. Traders dealing in wholesale trade are called wholesalers.

**Retail trade** – When goods are purchased and sold in comparatively smaller quantities, for final consumption it is referred to as retail trade.

**External trade** – External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries.

**Import trade** – If goods are purchased from another country, it is called import trade.

**Export trade** – If goods are sold to other countries, it is known as export trade.

**Entrepot trade** – When goods are imported for export to other countries, it is known as entrepot trade.

# Objective Type Questions 1.4

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## Question 1

The maritime routes linked the east and the west by sea and were used for the trade of spices and known as \_\_\_\_\_ . *(Fill up the blank with correct answer)*



# Answer 1

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spice route



## Question 2

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Commercial cities like Harappa and Mohenjodaro were founded in the third millennium B.C. The civilisation had established commercial connections with Mesopotamia and traded in \_\_\_\_\_, coloured gemstones, beads, pearls, sea shells, terracotta pots, etc.

*(Fill up the blank with any two items of trade)*



## Answer 2

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gold, silver, copper (any two)



## Question 3

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As economic life progressed, metals began to supplement other commodities as money because of its \_\_\_\_\_ and \_\_\_\_\_.

*(Fill up the blanks with correct answers)*



# Answer 3

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durability, divisibility



## Question 4

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In ancient India, documents such as \_\_\_\_\_ and \_\_\_\_\_ were in use for carrying out transactions in which money passed from hand to hand.

*(Fill up the blanks with correct answers)*



# Answer 4

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Hundi, Chitti



## Question 5

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The Indian subcontinent enjoyed the fruits of favourable balance of trade, where \_\_\_\_\_ exceeded \_\_\_\_\_ with large margins. *(Fill up the blanks with correct answers)*



# Answer 5

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exports, imports



## Question 6

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\_\_\_\_\_ and \_\_\_\_\_ banks later evolved to finance trade and commerce and agricultural banks to provide both short-and long-term loans to finance agriculturists. *(Fill up the blanks with correct answers)*



# Answer 6

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Commercial, Industrial



## Question 7

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\_\_\_\_\_ was another important branch of global trade network. Malabar Coast, on which Muziris is situated, has a long history of international maritime trade going back to the era of the Roman Empire.

*(Fill up the blank with correct answer)*



# Answer 7

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Maritime trade



## Question 8

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Pepper was particularly valued in the Roman Empire and was known as \_\_\_\_\_.

*(Fill up the blank with correct answer)*



# Answer 8

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**Black Gold**



## Question 9

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Calicut was such a bustling emporium that it was even visited by Chinese ships to acquire items, like frankincense (essential oil) and myrrh (fragrant resin used in perfumes, medicines) from the Middle East, as well as, \_\_\_\_\_ from India.

*(Fill up the blank with correct answer)*



# Answer 9

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pepper, diamonds, pearls and cotton



## Question 10

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On the Coromandel Coast, Pulicat was a major port in the 17<sup>th</sup> century. \_\_\_\_\_ were the principal export from Pulicat to Southeast Asia.

*(Fill up the blank with correct answer)*



# Answer 10

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Textiles



## Question 11

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Punjabi and Multani merchants handled business in the northern region, while the \_\_\_\_\_ managed the trade in the states of Gujarat and Rajasthan.

*(Fill up the blank with correct answer)*



# Answer 11

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**Bhats**



## Question 12

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\_\_\_\_\_ was another source of income generation. It had to be paid for passengers, goods, cattle and carts.

*(Fill up the blank with correct answer)*



# Answer 12

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The ferry tax



# Question 13

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## Match the Columns

Column I	Column II
(i) Pataliputra	(A) major centre for export of stones
(ii) Peshawar	(B) major centre of textile industry
(iii) Indraprastha	(C) commercial junction on the royal road
(iv) Varanasi	(D) important exporting centre for wool and for the import of horses

# Answer 13

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(i)– (A), (ii) – (D), (iii) – (C), (iv) – (B)



## Question 14

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The First Five Year Plan was implemented in 1952. Due importance was given to the establishment of \_\_\_\_\_ .  
(Choose the correct alternative)

- (a) Modern industries
- (b) modern technological and scientific institutes
- (c) space and nuclear programmes
- (d) All of these

# Answer 14

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(d) All of these



## Question 15

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In the first five year plan, due importance was given to the establishment of modern industries, modern technological and scientific institutes, space and nuclear programmes. Despite these efforts, the Indian economy could not develop at a rapid pace. Why?



## Answer 15

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Lack of capital formation, rise in population, huge expenditure on defence and inadequate infrastructure were the major reasons.



# **Self-Assessment Test 1**

## **Evolution and Fundamentals of Business**

***Time Allowed: 1 hour***

***Maximum Marks: 25***

# Question 1

Which is not an economic activity?

*(Choose the correct alternative)* **(1 mark)**

- (a) Clerical work in a bank
- (b) Teaching in Govt. school
- (c) Cooking by a housewife
- (d) Car production

# Answer 1

---

(c) Cooking by a housewife

# Question 2

Which is service industry?

*(Choose the correct alternative)* **(1 mark)**

- (a) Sugar
- (b) Cement
- (c) Poultry farm
- (d) Banking

# Question 3

Risk is the result of \_\_\_\_\_.

*(Choose the correct alternative)* **(1 mark)**

- (a) Uncertainty
- (b) Certainty
- (c) Business activities
- (d) None of these

# Question 4

Code of conduct exist in \_\_\_\_\_.

*(Choose the correct alternative)* **(1 mark)**

- (a) Business
- (b) Profession
- (c) Employment
- (d) All of these

# Question 5

Match the following:

**(1 mark)**

(a) Buying soft toys from China and selling them in India	(i) Export Trade
(b) Selling Basmati Rice to USA from India	(ii) Import Trade
(c) Buying electronic items from Japan and selling them in Thailand.	(iii) Entrepot Trade

# Question 6

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Name and explain the two characteristics of business which involve possibility of loss. **(3 marks)**

# Answer 6

The two characteristics of business which involve possibility of loss are:

- (i) **Uncertainty of return:** There is always uncertainty of return and possibility of loss. Every businessman invests money in his/her business with the objective of earning profit. However, there is always a possibility of loss.
- (ii) **Element of risk:** Risk implies the uncertainty of reward or the possibility of loss. There is always some element of risk involved in business because the future is uncertain. The risks are related to changes in consumer taste and fashions, strikes or lock-outs at the work place, increased competition, fire, theft, accidents, etc.

# Question 7

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“Business is an institution organised and operated to provide goods and services under the incentive of private gain.” Discuss. **(3 marks)**

# Answer 7

“Business is an institution organised and operated to provide goods and services under the incentive of private gain.” This statement is correct. The following points justify the given statement:

- (i) Business is an economic activity as it is undertaken with the main objective of earning profits. Profit is essential to cover costs and risks of the business. Every business must earn a reasonable profit to survive and grow.
- (ii) It involves sale, exchange, purchase of goods (sugar, pen, textbook, machinery, furniture, etc.)

# Answer 7

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and services (transportation, banking, insurance, etc.) on a regular basis for mutual profit through the satisfaction of human wants.

# Question 8

Anshul is a farmer. His elder brother Ankur is an advocate while his sister Priyanka is a clerk in a government office. Name the economic activities in which they are engaged and distinguish among them on the basis of: (i) Reward/Return (ii) Capital investment (iii) Risk. **(3 marks)**

# Answer 8

Anshul is engaged in business, Ankur is engaged in profession and Priyanka is engaged in employment.

<b>Basis</b>	<b>Business</b>	<b>Profession</b>	<b>Employment</b>
(i) Reward/Return	Profit earned	Professional fee	Salary or wages
(ii) Capital Investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital required
(iii) Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no risk

# Question 9

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What is business risk? What is its nature? Explain.

**(5 marks)**

# Question 10

- (a) Rajni, a house wife exchanges utensils for old clothes on a regular basis. Is it a business and why ?
- (b) Ramesh sells winter wear in the month of december, January and February but he is not able to sell his complete stock. **(6 marks)**
- (i) Identify the hindrance.
  - (ii) How can he resolve this hindrance?
  - (iii) Will this hindrance always occur ? Why?

# Answer 10

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(b) Hindrance of time resolved by warehousing, because there is time gap between production and consumption.

# **Self-Assessment Test 2**

## **Evolution and Fundamentals of Business**

***Time Allowed: 1 hour***

***Maximum Marks: 25***

# Question 1

Which is not included in 'Auxiliary to Trade'?

*(Choose the correct alternative)* **(1 mark)**

- (a) Animal Husbandry
- (b) Insurance
- (c) Transport
- (d) Warehousing

# Question 2

'Fraud by Employee' is a type of business risk \_\_\_\_\_.

*(Choose the correct alternative)* **(1 mark)**

- (a) Human
- (b) Natural
- (c) Economic
- (d) All of these

# Question 3

Which economic activity has zero risk?

*(Choose the correct alternative)* **(1 mark)**

- (a) Business
- (b) Profession
- (c) Employment
- (d) All of these

# Question 4

Which is Extractive Industry?

*(Choose the correct alternative)* **(1 mark)**

- (a) Building construction
- (b) Plantation
- (c) Mining
- (d) Textile

# Question 5

‘Only sale or exchange of goods/services for profit is business.’ Do you agree with the statement? Give reason in support of your answer. **(3 marks)**

# Answer 5

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No, the given statement is not correct.

Reason: Business involves dealings in goods or services on a regular or daily basis. One single transaction of sale or purchase does not constitute business. For example, sale of old newspaper by a housewife or the sale of one's old scooter (even at a profit) is not business though the seller gets money in exchange.

# Question 6

Categorise the following into business, profession and employment.

- (i) A farmer
- (ii) An advocate
- (iii) A clerk
- (iv) A doctor
- (v) A hawker selling toys for children
- (vi) A person repairing scooters on roadside

**(3 marks)**

# Answer 6

---

- (i) Business
- (ii) Profession
- (iii) Employment
- (iv) Profession
- (v) Business
- (vi) Business

# Question 7

It is one of the activities means for assisting trade and help in the promotion of the product by providing information to the consumers. Business does not exists in Isolation , it has to communicate with others and the activity help in making consumers aware and informed about the product of the company and inducing them to buy particular items.

- (i) Which activity is discussed in the above para ?
- (ii) What are those activities called which are meant for assisting trade ?



(iii) Name and explain the categories into which communication services can be classified.

**(4 marks)**

# Question 8

Mr. X and Y are having a discussion. Mr. X feels that business is based on selfish desire to gain higher and higher profits while Mr. Y thinks that profit is essential for a business. Can you support Mr. Y's case by giving strong points in his favour? **(5 marks)**

# Question 9

Profit maximization cannot be the sole objective of a business. Comment. **(6 marks)**

# Self-Assessment Test 3

## Evolution and Fundamentals of Business

*Time Allowed: 1 hour*

*Maximum Marks: 25*

# Question 1

Which is not the objective of business?

*(Choose the correct alternative)* **(1 mark)**

- (a) Making profit
- (b) Creation of customers
- (c) Investment
- (d) Innovation

# Question 2

Capital is required in \_\_\_\_\_.

*(Choose the correct alternative)* **(1 mark)**

- (a) Profession
- (b) Employment
- (c) Business
- (d) Non-economic activity

# Question 3

A company has decided to donate 1% of its sales to an NGO, serving mentally disabled people. This initiative by the company was highly appreciated by the public and their sales increased by 10%

Identify the objective depicted in the given example.

**(1 mark)**

# Answer 3

Social objective

# Question 4

Mr. Rajnesh sold his furniture & bike on OLX as he was shifting base to London. Is this a business activity ?  
Which element of business is being referred to here ?

**(1 mark)**

# Question 5

Tea is mainly produced in Assam, while cotton in Gujrat & Maharashtra but they are required for consumption in different parts of the country. How can this hindrance of place be removed ? Under what business activity will it be categorized? Explain. **(3 marks)**

# Question 6

A factory emits a lot of smoke and pollutants while manufacturing Sugar. It is overlooking the impact of its activities on the environment and is engaged in profit maximization.

- (i) Which objective is not being fulfilled by the manufacturers? Explain.
- (ii) Which type of industry will you classify sugar manufacturing? Explain. **(3 marks)**

# Question 7

Rising Heights Ltd. wants to expand and grow. For this it needs funds to acquire land, building, machinery etc. Also since these assets cost a lot they want the risk associated with them to be reduced. Identify the hindrances and explain how they can be removed.

**(4 marks)**

# Answer 7

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Hindrance of Finance and Risk

*(explain)*

# Question 8

Define business. Explain the characteristics of business.  
(*any four*) **(5 marks)**

# Question 9

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Commerce is considered as the backbone of industry and other business activities. Discuss the various functions performed by commerce. **(6 marks)**