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NATURE AND SCOPE OF BUSINESS

In your day-to-day life you may be engaged in several activities. However, when someone asks you as to what you want to become in your life or what you want to do in future, your answer may be - "I want to join a suitable job or I want to become a doctor, an engineer, a dancer or a musician", or you may say, "I want to do my own business". But why do you want to do any of such activities? Obviously, it is mainly to earn your livelihood. Broadly speaking, every human activity in which one is engaged for the purpose of earning one's livelihood is known as economic activity. In this lesson we shall learn about all such activities, their categorisation and some other related aspects.



LEARNING OUTCOMES

- distinguishes between the needs and wants of society;
- justifies how the needs of the society can be satisfied by pursuing numerous economic activities; and
- identifies an economic activity as per their interests and skills.

1.1 HUMAN ACTIVITIES

Every human being is engaged in one activity or the other. It may be cultivating land, preparing food, playing football, reading storybooks, studying in a school, teaching in a college, working in an office, jogging in the park and so on. If you try to ascertain as to why individuals engage themselves in one activity or the other, you will find that by doing such activities they are trying to satisfy some of their needs or wants. All these activities which human beings undertake to satisfy their needs or wants are called human activities.

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However, even if all human activities satisfy the needs and wants, they differ from each other in terms of the purpose for which they are undertaken and the end result. For example, let us take the activity of preparing food - one prepared by a mother at home for her family and the other by a cook in a hotel. Here, you will notice that the purpose and end result of the activity of preparing food (a) by a mother and (b) by a cook varies. In the first case, the purpose is to feed the family members without any expectation of monetary return while in the second case, cooking food is a part of his job so as to earn money in terms of salary or wage. The end result in the first case is 'self-satisfaction' and looking after the family, while in the second case it is 'earning money' for livelihood. The human activities that are undertaken with an objective to earn money or livelihood are called **economic activities**. A farmer growing crops, a worker working in a factory for wage/salary, a businessman engaged in buying and selling of goods are examples of economic activities.

Whereas the other types of activities that are undertaken to derive self-satisfaction, are called **non-economic activities**. While activities like meditation, engaging in sports for physical fitness, listening to music, providing relief to flood victims etc., are examples of non-economic activities.

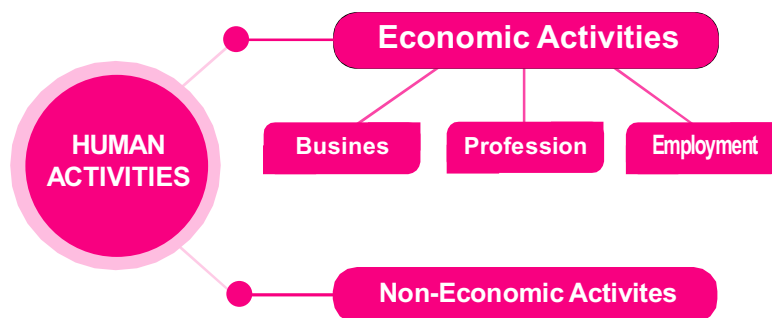


Figure: 1.1 Human Activities



INTEXT QUESTIONS 1.1

1. Define 'Economic Activities'?
2. Below are given certain non-economic activities. Convert them into economic activities:

Example: A nurse attending her ailing son. (Non-economic activity)

A nurse attending patients in the hospital. (Economic activity)

- (a) A person working in his own garden.
- (b) A lady preparing food for her husband.

- (c) A man white-washing his own house.
- (d) A teacher teaching his son at home.
- (e) A Chartered Accountant preparing his own accounts.

1.2 CLASSIFICATION OF ECONOMIC ACTIVITIES

Economic activity can be a one-time activity or a continuous one. For example, you know how to stitch clothes and one day you stitch a shirt for your friend and he pays some money to you. Of course, this is an economic activity as you have some monetary gain but it is a one-time activity. But, if you start stitching shirts on a continuous basis and charge money for that, you are said to be engaged in some continuous or regular economic activity. It may be noted that by getting themselves engaged regularly in a particular economic activity people try to earn their livelihood. So, the economic activities in which individuals engage themselves on a regular basis and earn their livelihood are known as their 'occupations'.

In fact, everyone is engaged in one occupation or the other, and these can be broadly categorised as -

- (a) Profession;
- (b) Employment; and
- (c) Business

Let us know a few more details about these occupations.

1.2.1 PROFESSION

You are aware of doctors. Who they are and what do they do? They are basically individuals who have a special knowledge and training to examine the patients, find out the ailment, if any, and then treat them to be cured from such ailment. And, for doing all these they charge a fee from patients. Similarly, we have Chartered Accountants who specialise in matters related to accounts, taxes etc. and help people and organisations in such jobs for a fee. If we look further, we find Engineers, Architects, Film-stars, Dancers, Artists and many others engaged in their own field having specialised knowledge and training. They are all known as professionals and the activities they are engaged in are called profession.

In order to gain clarity on the concept of a profession, let us look at its basic features which can be summarised as follows:

- (a) Profession is an occupation for which the individual has to acquire a special knowledge and skill.

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- (b) The money they get for providing such a service is usually known as 'fee'.
- (c) Most of the professionals are regulated by a professional body, which frames the code of conduct to be followed by the member professionals. For example, Chartered Accountants in India are regulated by a professional body known as Institutes of Chartered Accountants of India, Cricketers by International Cricket Council (ICC), and so on.
- (d) Professionals acquire the specialised knowledge mostly from colleges, universities or specialised institutes. In some cases, individuals also acquire such knowledge and skill through training or coaching by an expert in the same field, say for example, dancers and musicians, etc.
- (e) Professionals are those in practice, usually work on their own and get a fee for their services. However, some of them may work in organisations as employees or consultants.
- (f) The primary objective of every profession is to provide service though they may charge a fee. They should not exploit the people using their knowledge or expertise.

All those economic activities which involve the rendering of personal service of specialised and expert nature based on professional training and skill and require the observance of certain rules and regulations (code of conduct) are termed as Profession.

1.2.2 EMPLOYMENT

You have seen people going regularly to offices, factories, firms etc. for work. These are individuals who are engaged by organisations or individuals to work for them in return of a wage or salary. They are said to be in employment. Thus, we find a postman is in employment in the 'Department of Posts' to deliver letters. Here the department is called the employer and the postman is the employee. The postman works on the basis of certain terms and conditions and gets a monthly salary in return.

The main features of employment are:

- (a) It is an occupation where a person (called employee) works for another (called employer).
- (b) There are certain terms and conditions of work like hours of work (how many hours a day), duration of work (how many days or hours in a week or month etc.), leave facility, salary/wages, place of work etc.
- (c) The employees get salary (normally paid on a monthly basis) or wages (normally paid on daily/weekly basis) in return of their work. This amount is normally



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predetermined, mutually agreed upon and may increase over time.

- (d) Legally, the employer-employee relationship is based on a contract and any deviation from any side permits the other party to take legal recourse.
- (e) There are jobs for which no technical education or specialised skill is required for employment. But, for skilled jobs, specialised jobs and technical jobs, a certain level of basic/technical education is required.
- (f) The main purpose behind employment is to secure assured income through wages and salaries.

The economic activity rendered by one person to another under a contract of service for some remuneration is called employment.

1.2.3 BUSINESS

You must have heard about Tata Companies. They manufacture so many things from salt to trucks and buses and sell these to individuals like you and me. In the process, they earn a profit. Look at a shopkeeper nearby. What does he do? He buys products in bulk and sells us in small quantities. He also earns some profit in the process. Similarly, the cable TV operator provides us a connection at a price so that we watch various channels on our television set. In this process the cable TV operator earns a profit. All of them are said to be engaged in business and are called businessmen. They all perform their activities regularly to earn profit. Thus, the term 'business' refers to human activities which involve production or exchange of goods and services regularly with the object of earning profit.

Business may be defined as an economic activity involving regular production or purchase of goods and services for sale, transfer and exchange with the objective of earning profit.

We find people like mill owners, transporters, bankers, traders, tailors, taxi operators etc. doing business. All of them are engaged in an activity of manufacturing or trading (buying and selling) or providing some service. They have invested their money, borne the risks involved and worked for earning some profit. Thus, the main characteristics of business are:

- (a) It is an occupation where a person is engaged in manufacturing or buying and selling of **goods and services**. The goods may be consumer goods or capital goods. Similarly, the services may be in the form of transportation, banking, insurance etc.
- (b) The activities must be carried on **regularly**. A single transaction is usually not

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treated as a business. For example, if a person sells his old car at a profit, it is not treated as a business activity. However, if he is engaged in the activity of buying old cars and selling them on a regular basis, he shall be treated as engaged in business activity.

- (c) The sole objective of business is to earn **profit**. It is essential for the survival of business. Of course, it is through provision of some goods or some services.
- (d) Every business requires some **investment** in cash or kind or both. It is usually provided by the owner or is borrowed by him at his own risk.
- (e) The earnings are always uncertain, because the future is unpredictable and a businessman has no control over certain factors that affect his **earnings**. Thus, every business involves an element of risk and the same is borne by the businessman, the owner.



INTEXT QUESTIONS 1.2

1. Define the term 'Profession' in your own words.
2. Following is a list of activities. Classify these activities as Business, Profession or Employment by putting their number in the circles provided at the end of the question
 - (a) Policeman on duty at your local police station.
 - (b) Teacher working in an educational institution.
 - (c) A driver driving a bus of a State Road Transport Corporation.
 - (d) A taxi driver who runs his own taxi.
 - (e) A fisherman selling fish in a village.
 - (f) Gopal stitching clothes of the customers regularly at home.
 - (g) A daily-wager working in a factory.
 - (h) A gardener maintaining the lawns in a college.
 - (i) A lawyer practising in a court.
 - (j) An engineer running his consultancy firm.

Business

Profession

Employment

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1.2.4 COMPARISON OF BUSINESS, PROFESSION AND EMPLOYMENT

Having learnt about the essential characteristics of business, let us distinguish it from profession and employment.

**Note**

Basis	Business	Profession	Employment
(a) Establishment	Decision to start the Business and compliance of legal formalities like registration, wherever required.	Membership of a professional body is essential.	Enter into service contract with the employer.
(b) Qualification	Specific qualification is not required.	Professional knowledge and training in the same field is essential.	As per the needs of the employer and the job involved.
(c) Capital	Capital investment is a must. Its amount depends on the nature and scale of business operation.	Some amount of capital investment is required for establishment.	No capital investment is required.
(d) Nature of work	Production or purchase and sale of goods or services.	Expert service.	Performance of job.
(e) Return or reward	Profit.	Professional fee.	Wage or Salary.
(f) Risk	There is risk of loss.	Risk of not getting sufficient fee.	No risk, so long as business /office continues its operations.
(g) Motive	Profit motive.	Service motive, though fee is charged.	Motive is to earn a livelihood.



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1.3 IMPORTANCE OF BUSINESS

Business is an integral part of modern society. It is an organised and systematic activity for earning profit. It is concerned with activities of people working towards a common economic goal. Modern society cannot exist without business. The importance of business can be described as follows:

- (a) Business improves the standard of living of the people by providing better quality and large variety of goods and services at the right time and at the right place.
- (b) It provides opportunities to work and earn a livelihood. Thus, it generates employment in the country, which in turn reduces poverty.
- (c) It utilises the scarce resources of the nation and facilitates mass production of goods and services.
- (d) It improves national image by producing and exporting quality goods and services to foreign countries. By participating in international trade fairs and exhibitions it also demonstrates the progress and achievements of its own country to the outside world.
- (e) It enables the people of a country to use quality goods of international standard. This is possible by way of importing goods from foreign countries or by producing quality goods in the country by applying modern methods of production.
- (f) It gives better return to the investors on their capital investment and also provides opportunities to grow and expand the business.
- (g) It promotes social interest by providing tourist services, sponsoring cultural programmes, trade shows etc. in the country, which enable people of different parts of the country to exchange their culture, traditions and practices. Thus, it promotes national integration.
- (h) It also facilitates exchange of culture among the people of different nations and thus, maintains international harmony and peace.
- (i) It helps in the development of science and technology. It spends large amount of money on research and development in search of new products and services. Hence a number of innovative products and services are developed through industrial research.

1.4 OBJECTIVES OF BUSINESS

Business objectives are something, which a business organisation wants to achieve or accomplish over a specified period of time. It is generally believed that a business has a single objective, that is, to make profit and safeguard the interests of its owners. However, no business can ignore the interests of its employees, customers as well as the interest of society as a whole. Business objectives also need to be aimed at contributing to national goals and aspirations as well as towards international well-being. Thus, the objectives of business may be classified as -

- (a) Economic objectives
- (b) Social objectives
- (c) Human objectives
- (d) National objectives
- (e) Global objectives

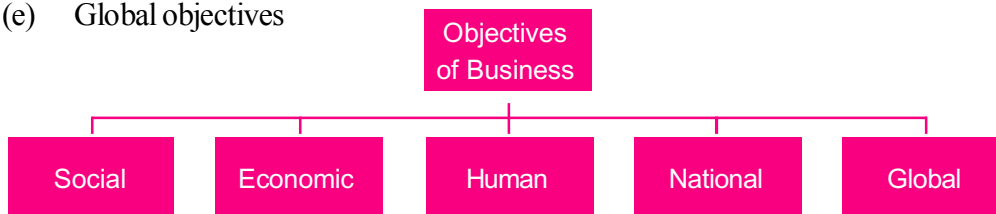


Figure: 1.2 Objectives of Business

Now let us discuss these objectives in detail.

- (a) **Economic Objectives** of a business refer to the objective of earning profit and those which have a direct impact on the profit-earning objective of business. Some of the main economic objectives of business are:
 - (a) earning of adequate profits;
 - (b) exploring new markets and creation of more customers;
 - (c) growth and expansion of business operation;
 - (d) making innovations and improvements in goods and services; and
 - (e) making use of available resources in the best possible manner.
- (b) **Social Objectives** of business are those, which are desired to be achieved for the benefit of the society. Some of the major social objectives are:
 - (i) production and supply of quality goods and services to the society;



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- (ii) making goods available at reasonable prices;
 - (iii) avoidance of unfair practices like hoarding, black-marketing, over-charging, etc.;
 - (iv) contributing towards the general welfare and upliftment of the society;
 - (v) ensuring fair return to the investors;
 - (vi) taking steps in the direction of consumer education; and
 - (vii) conserving natural resources and wild life, and protecting the environment.
- (c) **Human Objectives** of business primarily refer to the objectives aimed at safeguarding the interest of its employees and their welfare. Some of the major human objectives are:
- (i) providing fair remuneration and incentives to the employees;
 - (ii) arrangement of better working conditions and proper work environment for the employees;
 - (iii) providing job satisfaction by making the jobs interesting and challenging, putting the right persons in right jobs;
 - (iv) providing the employees with more and more promotional opportunities;
 - (v) organising training and development programmes for the growth of the employees; and
 - (vi) providing employment to the backward classes of the society and people who are physically and mentally challenged.
- (d) **National Objectives** of business are the objectives of fulfilling the national goals and aspirations like:
- (i) creation of employment opportunities;
 - (ii) promotion of social justice;
 - (iii) produce and supply goods in accordance with the national interest and priorities;
 - (iv) payment of taxes and other dues honestly and regularly;
 - (v) helping the state in maintaining law and order by promoting good industrial relations; and



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- (vi) implementing government's economic and financial policies framed from time to time.
- (e) Global objectives of business are the objectives of facing the challenges of global market. Some of the global objectives are:
 - (i) making available globally competitive goods and services; and
 - (ii) reducing disparities among rich and poor nations by expanding its operations.

1.4.1 ROLE OF PROFITS IN BUSINESS

Profit plays an important role in business. Following points indicate the role of profit in business:

1. **Survival:** Profit helps an organisation to replace old assets and increases the capacity of an organisation to survive.
2. **Future Growth and Expansion:** Extra profit earned can be utilized for expansion purpose. Entry in new areas helps an enterprise to grow.
3. **Incentive:** Profit is an incentive for businessmen who put in hard work. Profit motivates the businessmen to put in maximum efforts.
4. **Prestige:** Profit making organisations can afford to give higher wages/salaries and other facilities to their employees. This can retain employees and attract highly competent persons to join the enterprise. So, profit making concern enjoys goodwill in the society.
5. **Achievement of Goals:** Only a profit-making concern can achieve the goals of an enterprise because achievement of economic objectives require expenditure.
6. **Measure of Efficiency:** The success of an organisation can be evaluated by looking at its profit. So, profit is an index of success in business. It measures the efficiency of business.
7. **Means of Livelihood to Businessmen:** Profit is a regular income to the family of business persons.

1.4.2 BUSINESS RISKS

Business is full of uncertainties. Uncertainties can be of different forms like loss due to change in fashion; fall in market price; goods produced may be destroyed by fire, storm, cyclone, theft etc. Thus, while running a business enterprise, there is an element of risk. Business risk means chance of loss due to uncertain events in future.



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Nature of Business Risk

1. **Uncertainty:** Business risks is due to uncertainty of the future course of action. Natural calamities such as flood, earthquake etc. result in loss. Loss may also arise due to human causes like strike, lockouts, accidents, theft, bad-debts etc. There are other uncertainties such as competition, technological changes, price fall etc.
2. **Profit is the Reward for Risk:** A business concern which is willing to take risk earns handsome profits. Higher risk results in higher profits.
3. **Difficult to Measure:** A businessman may anticipate some risks. He cannot predict all the risks which will occur in future. Therefore, risk cannot be measured accurately.
4. **Essential Element of Business:** Business activities cannot be conducted without some element of risk. Risk bearing is an essential element of business.
5. **Variability:** According to the nature and size of business, the degree of risk varies. If the amount invested is high, there will be high degree of risk. The degree of risk also varies with time and competition.

Causes of Business Risks

1. **Natural Causes:** Fire, flood, storm, cyclone, earthquake, famine, lightning, snowfall, tide etc. result in loss of life, property and income. Therefore, natural causes are beyond the control of business.
2. **Economic Causes:** It refers to change in market conditions. Economic causes can be in the form of fluctuation in demand, fluctuation in price, availability of cheap substitutes, competing business firms etc.
3. **Political Causes:** Political causes refer to change in the government policies and laws due to instability of government resulting in change in industrial policy / license policy and tax policy. This may result in loss to the business. Import and export restrictions, high taxes, rise in interest rate on borrowings etc. may cause loss to the business.
4. **Human Causes:** Inefficient management and carelessness of employees may result in loss. Workers may damage machines. They may get involved in strike, lockout etc. which may also result in loss. If the management fail in estimating demand for products, loss may arise. Uncertainties caused by human actions e.g. forgery, misappropriation of cash, theft of goods, riots, wars, etc. can also result in loss.



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5. **Physical and Technical Causes:** Change in technology may make the machines obsolete before their expected life. Mechanical failures arise due to leakage of gas, bursting of a boiler etc. Value of assets may be reduced due to loss in weight, vaporisation etc. Another kind of physical cause is the loss of goods in transit.



INTEXT QUESTIONS 1.3

1. Mohan has recently completed his MBBS course. He finds difficulty in choosing his occupation. Guide him by filling up the following table:

If he chooses	What should he do?	What will he get is return?
(a) Business		
(b) Profession		
(c) Employment		

2. Correct the following sentences, if necessary:
- Business minimizes opportunities to work and, thus, generates employment in the country.
 - By producing and exporting quality goods and services, the national image of a country goes down.
 - Business objectives should concentrate on profit earning only.
 - Creation of employment opportunities and paying taxes and other dues honestly to the government are the national objectives of a business.
 - A businessman should prepare a false statement of accounts in order to save taxes.
 - Profit plays no role in business.
3. Identify the causes of business risk in the following causes :
- X Ltd. suffered a loss due to bursting of boiler:
 - Natural Cause
 - Political Cause
 - Physical Cause
 - Economic Cause
 - Auditor identified misappropriation of cash by a group of workers in Y Ltd:



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- a) Natural Cause
 - b) Human Cause
 - c) Physical Cause
 - d) Political Cause
- iii. Suzuki Ltd. suffered a loss due to tsunami:
- a) Natural Cause
 - b) Human Cause
 - c) Economic Cause
 - d) Political Cause

1.5 CLASSIFICATION OF BUSINESS ACTIVITIES

Let's look around and find out the various types of business activities that usually take place in an economy. Some of these are concerned with:

- (i) Production or manufacturing
- (ii) Extraction of oil, natural gas or minerals
- (iii) Trading or buying goods from one place and selling it at different place or country
- (iv) Providing services like transportation, warehousing, banking and insurance etc.

Now we will analyze in details the above business activities under suitable headings. The business activities which are concerned with production and/or processing of goods and services are grouped under the heading Industry and activities such as distribution of goods and services from the point of production to the point of consumption are grouped under the heading Commerce. So, we can classify business activities as Industry and Commerce. Let us now know details about these two categories.

1.5.1 INDUSTRY

Industry is a group of productive enterprises or organisations that produce or supply goods or services or sources of income. Industry primarily refers to all such business activities which are concerned with production/raising or processing of goods and services. It processes raw materials or semi-finished goods into finished goods. Extracting raw materials from earth's surface, manufacturing goods and commodities, producing crops, fish, flowers, etc., constructing buildings, dams, roads etc. are all examples of industry. These activities are called industrial activities and the units engaged in these activities are known as industrial enterprises. However in a broader sense, provision of services like banking, insurance, transport also form part of industries known as tertiary industries.

Classification of Industries

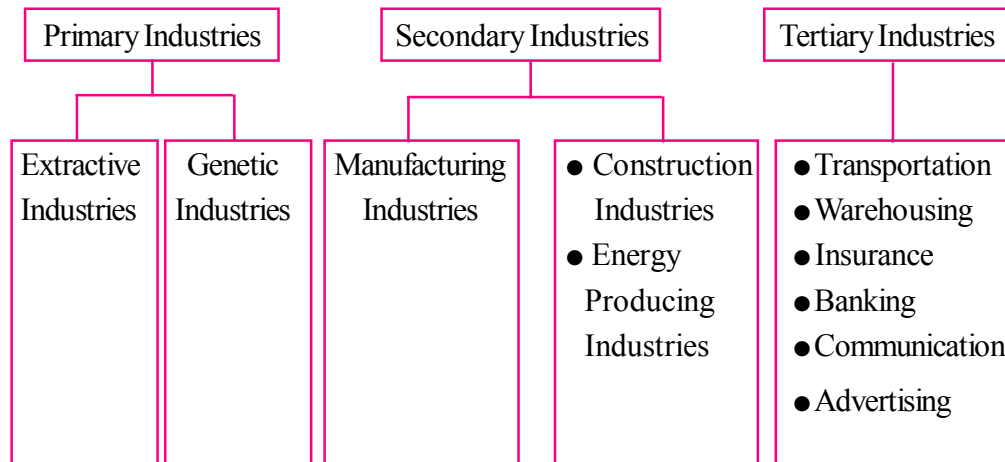


Figure: 1.3 Classification of Industries

- A. Primary Industry:** It includes agriculture, forestry, fishing, mining, quarrying and the extraction of minerals. It may be divided into two categories:
- Genetic Industry** which includes the production of raw materials that may be increased by human intervention in the production process such as agriculture, forestry, and livestock and fishing, and
 - Extractive Industry** which includes the production of exhaustive raw materials that cannot be augmented through cultivation such as mining of mineral ores, the quarrying of stone, and the extraction of mineral fuels.
- B. Secondary Industry:** This sector includes manufacturing industry which
- takes the raw materials supplied by primary industries and processes them into consumer goods, or
 - further processes goods that other secondary industries have transformed into products, or
 - builds capital goods used to manufacture consumer and non-consumer goods.

This sector also includes energy-producing industries as well as the construction industries.

Secondary industries may be classified as:

- Heavy industry** or large-scale industry which requires heavy capital investment in plant and machinery,



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- (b) **Small-scale Industry** which requires a smaller capital investment in plants and equipment.

The Revised MSME classification also includes the turnover of the company while earlier the classification was on the basis of investments put in. The Revised MSME Classification as on 1st June 2020 is as under-

Manufacturing and Services Enterprise	
Enterprises	Investment and Annual Turnover
Micro Enterprises	up to 5 crore
Small Enterprises	5-50 crore
Medium Enterprises	50-250 crore

- C. **Tertiary Industry:** This sector is called as Service Sector Industry and includes industries that, while producing no tangible goods, provide services or intangible gains or generates wealth. This sector generally has a mix of private and government enterprise. This sector includes banking, finance, insurance, real estate services, wholesale, retail, transportations, tourism, health, information and communication services etc.

Service Enterprises: These enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment.

Others industries:

- Cottage Industries:** An industry where the creation of products and services is home-based, rather than factory-based. While products and services created by cottage industry are often unique and distinctive given the fact that they are usually not mass-produced, producers in this sector often face numerous disadvantages when trying to compete with much larger factory-based companies.
 - An industry whose labour force consists of family units or individuals working at home with their own equipment
 - A small and often informally organised industry
 - A limited but enthusiastically pursued activity or subject.

Examples of cottage industry: Weaving, Pottery etc.



Figure: 1.3 Agro-based Industries

2. **Agro-based Industries:** These industries use plants and animal-based products as their raw materials. Examples are food processing, vegetable oil, cotton textile, dairy products, and leather industries.
3. **Mineral based Industries:** Mineral-based industries are based on mining and use 'mineral ore' as raw material. These industries also provide to other industries. They are used for heavy machinery and building materials.
4. **Marine-based Industries:** Marine-based industries use raw materials from sea or ocean, for example fish oil.
5. **Forest-based Industries:** These industries use raw materials from the forest like wood. The industries connected with forest are: paper, pharmaceutical, and furniture.
6. **Private Sector Industries:** Private industries are businesses that are owned and operated by an individual or group of individuals.
7. **Public Sector Industries:** Public sector industries are owned and managed by the government. For example, Hindustan Aeronautics Limited (HAL)
8. **Joint Sector Industries:** These industries are jointly operated by the state and individuals. For example, Maruti Udyog.
9. **Cooperative Sector Industries:** Cooperative industries are operated by the suppliers, producers or workers of raw material. For example, Amul India.



INTEXT QUESTIONS 1.4

1. Below are given certain groups of industries. In each group, one industry does not match with the group. Find out that industry and underline it. The first one has been done for you. In this all industries except textile belong to extractive industries.
 - (a) Agriculture, forestry, textile, fishery.
 - (b) Dams, roads, canals, cement.



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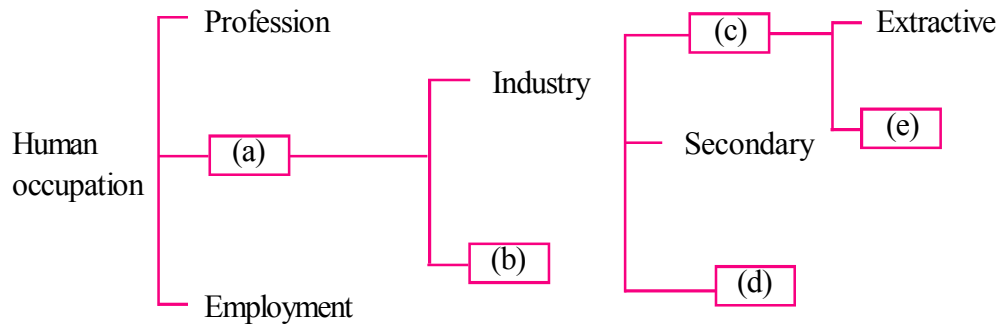
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- (c) Poultry farming, hunting, mining, forestry.
- (d) Iron & steel, textile, chemical works, pisciculture.
- (e) Oil exploration, agriculture, dairy farming, hunting.
- (f) Floriculture, films, transport, banking.

2. Complete the following Chart:



1.5.2 COMMERCE

Commerce is concerned with the distribution of produced goods and services from the point of production to the point of ultimate consumption.

You know that whatever the goods and services produced are to be made available by those who need them without which the business objective to earn profit and serve the society will not be possible. This involves a number of additional activities. For example, when somebody produces bread, he has to make it available at convenient locations at right time. This involves activities like making people aware about the product, storing the product at right places, arranging retail outlets, packaging the product, transportation of the product, selling the product and so on. All these activities taken together are known as Commerce. It provides the necessary link between producers and consumers of goods and services and facilitates the purchase and sale of goods and services. In fact, it performs all functions that are essential for maintaining a smooth and uninterrupted flow of goods and services to the customers.

Thus, Commerce includes two types of activities, viz.,

- (i) **Trade**
- (ii) **Auxiliaries to trade.**

Trade: Buying and selling of goods is termed as trade.

Auxiliaries to Trade

On the other hand, activities that are required to facilitate the purchase and sale of



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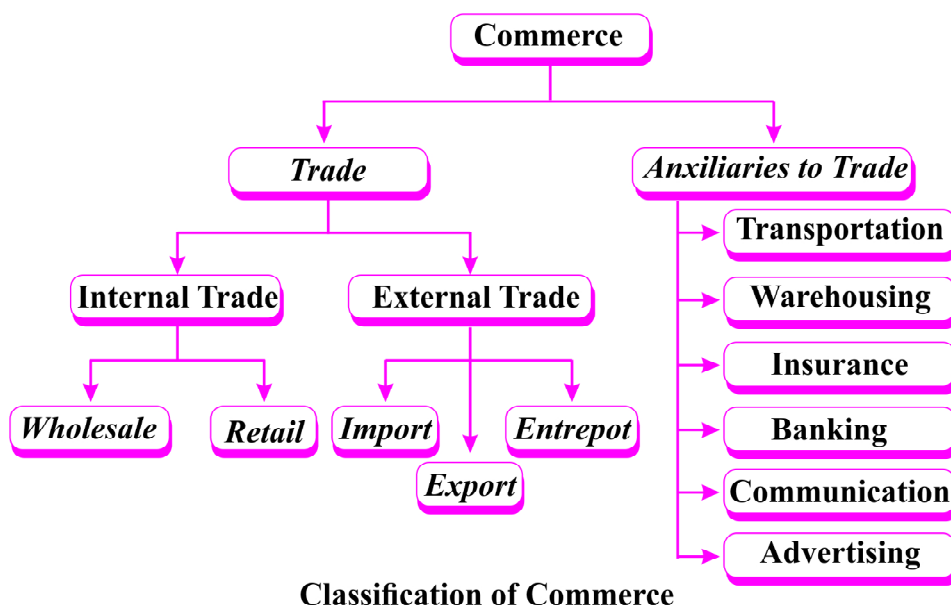


Figure: 1.4

1.5.2.1 TRADE

Trade is an integral part of commerce. It simply refers to sale, transfer or exchange of goods and services. It helps in making the goods and services available to ultimate consumers. The manufacturers of goods who produce in bulk or large quantity generally find it very difficult to sell those goods directly to the consumers. The reasons may be distance of the consumers from the place of manufacturing, or the quantity of the product bought at one point of time, the problem of payment and so on. Hence they utilise the services of some firms or individuals who buy goods from the manufactures and sell it to the consumers. For example, the local grocery shop owner sells grocery items to the consumers after buying it from the manufactures. Sometimes, he buys it from the wholesalers who buy goods in bulk from the manufactures and sell it to him. It may be noted that the wholesalers as well as the grocery shop owners are said to be engaged in trading.

Thus, the features of trade can be summed up as follows:

- (a) It involves actual buying and selling of goods;
- (b) It refers to procuring goods from one place/person to sell it to another person or at another place;
- (c) Traders, also known as middlemen facilitate the distribution of goods;

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Note

- (d) Trading helps in equalising demand and supply. For example, the state of Punjab may be producing plenty of rice without much demand for it in its own state. Traders buy rice from Punjab and make it available to states like Orissa and West Bengal where there is a great demand for rice. Thus, the demand and supply ratio is maintained.

Classification of Trade

On the basis of area of operation, trade can be classified as under -

- (a) Internal Trade
- (b) External Trade.
- (a) **Internal Trade:** When trade takes place within the boundaries of a country it is called internal trade. It means both the buying and selling take place within the boundary of a country.

For example, a trader can buy woolen garments from the manufacturers at Ludhiana and sell it to the retailers in Delhi. Similarly, a trader of a village can buy goods from the wholesale market of a city for sale in the village. From these two examples, we find that internal trade can be (a) buying from manufactures and selling it to retailers in bulk (known as wholesale trade); or (b) it can be buying from manufacturers or wholesalers and selling it to consumers (known as retail trade).

- (b) **External Trade:** Trade that takes place between different countries is known as external trade. In other words, external trade refers to buying and/or selling of goods/services across national boundaries. This may take any of the following forms:
- (i) Firms of country 'A' purchase goods from firms of country 'B' to be sold in their own country. This is known as Import trade.
- (ii) Firms of country 'A' sell goods produced in their own country to firm of country 'B'. This is known as Export trade.
- (iii) Firms of country 'A' purchase goods from firms of country 'B' to be sold to firms of country 'C'. This is known as Entrepot trade.

1.5.2.2 AUXILIARIES/AIDS TO TRADE

Auxiliaries to Trade are activities which are meant for assisting trade by removing various hindrances/ obstacles in trade.



Note

The hindrances/ obstacles which arise in the way of trade are:

- (a) **Hindrance of Place:** You know that the goods are produced in one place or country but demanded throughout the world. This hindrance can be removed by the development of transport facilities through road, rail or coastal shipping which facilitate movement of raw material to the place of production and the finished products from factories to the place of consumption.
- (b) **Hindrance of Information:** How do people of world come to know about the products or services that have been produced in which part of the world or country? So there is a need of communication facilities to enable the producers, traders and consumers to exchange information with one another. Thus, postal services and telephone facilities are also regarded as auxiliaries to business activities.
- (c) **Hindrance of Time:** You also know that some goods are produced in particular seasons but whose demand is throughout the year. Particularly those goods which are of perishable nature or non-durable, such as vegetables, milk, curd, pulses, wheat, rice etc. To remove this obstacle, there is a need of developing storage or warehousing facilities which remove the hindrance of time by facilitating holding of stocks of goods to be sold as and when required. Warehousing helps business firms to overcome the problem of storage to prevent loss or damage and facilitates the availability of goods when needed. Continuous supply of goods and thus stable prices can be maintained.
- (d) **Hindrance of Risk:** You know that doing business means be ready to bear risks. It may be in the form of loss of profit or loss of stock during the course of transportation or storage. It may be natural or created by human being. Some risks are insurable which can be predicted to some extent but non-insurable risk cannot be predicted. Therefore, the risk of loss or damage to the factory building, machinery, furniture, goods held in stock or goods in course of transport due to theft, fire, accidents, etc are known risks and can be removed by insurance of goods. By payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.
- (e) **Hindrance of Finance:** It is said that finance is the life blood of any business without which no business activities can be performed. Hence, development of financial institutions is vital, essential and desirable for the smooth conduct of business. Capital (finance) required to acquire assets and meeting the day-to-day expenses are provided by banking and financing institutions. Commercial banks lend money to business organisations by providing loans and advances.

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Note

Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders. In foreign trade, payments are arranged by commercial banks on behalf of importers and exporters.

All the above activities help in facilitating the trading activities or providing support to the trading activities. That is why these are called auxiliaries/aids to trade.



INTEXT QUESTIONS 1.5

1. Give one word substitute for the following sentences:
 - (a) The process of exchange and distribution of goods and services.
 - (b) Buying and selling of goods and services.
 - (c) Buying and selling of goods in large quantities.
 - (d) Import of goods for exporting.
 - (e) Buying and selling of goods between different countries.
2. Complete the following incomplete words by taking clues from the statements given for each. Every blank represents one letter only. First one has been done for you.
 - (a) ___ M M ___ C ___ (COMMERCE)
 - (b) ___ A ___ E
 - (c) W ___ H ___ I N ___
 - (d) ___ X ___ T
 - (e) E ___ E ___ T
 - (f) ___ H ___ E ___ E
 - (g) ___ T ___ L

Clues:

- (a) All activities that facilitate availability of goods and services for consumption.
- (b) Buying and selling of goods.
- (c) Storage of goods whether raw material or finished goods.
- (d) Selling of goods to foreign countries.

- (e) A company of one country buys goods from a company of another country to be sold to a company of some third country.
- (f) Goods are bought and sold in bulk quantities.
- (g) Goods are sold in small quantities to consumer.

**TERMINAL EXERCISE****Very Short Answer Questions**

1. What is meant by 'human activity'?
2. Define the term 'occupation'.
3. State the meaning of 'Genetic industry'.
4. Explain Commerce.
5. What is 'Trade'?
6. What do you mean by 'Auxiliary to trade'?
7. Name the obstacles in the way of Trade,
8. List two examples of human causes of loss in business.

Short Answer Questions

1. Explain the different type of primary industries.
2. How would you classify business activities?
3. Distinguish between economic and non-economic activities.
4. State any two characteristics of business.
5. Mention any three economic objectives of business.
6. Mention any three characteristics of business risks.
7. Briefly describe physical causes of business risks.

Long Answer Questions

1. Describe the importance of business in modern society.
2. What is meant by profession? Explain its features in brief.
3. Explain the various human objectives of business.

Module - 1**Introduction to Business****Note**

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Note

4. State the meaning of 'Industry'. Explain the various classifications of industry.
5. Define the term 'Commerce'. Describe the various activities relating to commerce.
6. Explain the role of profit in business.
7. What do you mean by business risk? Explain the natural causes of business risks.
8. Describe the causes of business risks.
9. "Profit plays the same role in business as blood plays in human beings." Give your comments in the light of this statement.
10. Your friend Ramesh wants to start a business. Therefore, he is interested to learn about the business risks and their causes. Explain to him the meaning and causes of business risks.



ANSWERS TO INTEXT QUESTIONS

1.1

1. All such activities that are performed with an object of earning money or livelihood are called economic activities.
2. (a) A person working in a school garden.
(b) A lady preparing food in a restaurant.
(c) A man white-washing the building of a trade centre.
(d) A teacher teaching students in a school.
(e) A Chartered Accountant preparing accounts of a firm.

1.2

- | | | |
|-------------|------------|---------------------|
| 2. Business | Profession | Employment |
| (d) (e) (f) | (i) (j) | (a) (b) (c) (g) (h) |

1.3

- | | | |
|------------------|-------------------------|-----------------------------|
| 1. If he chooses | What should he do? | What will he get as return? |
| (a) Business | May open a chemist shop | Profit |
| | Or | |



Note

- Start a company to
manufacture medicines
- (b) Profession Start his own clinic Fee
- (c) Employment Get job in a hospital Salary
2. (a) Business maximises opportunities to work and thus generates employment in the country.
- (b) By producing and exporting quality goods and services, the national image of a country improves.
- (c) Business objectives should not concentrate only on profit earning.
- (d) No correction required
- (e) The businessmen should prepare the true statement of accounts and pay the taxes honestly.
- (f) Profit plays an important role in business.
3. (i) c (ii) b (iii) a

1.4

1. (b) Cement (c) Poultry farming (d) Pisciculture
- (e) Dairy farming (f) Floriculture
2. (a) Business (b) Commerce (c) Primary
- (d) Tertiary (e) Genetic

1.5

1. (a) Commerce (b) Trade (c) Wholesale trade
- (d) Entrepot (e) External trade
2. (b) TRADE (c) WAREHOUSING (d) EXPORT
- (e) ENTREPOT (f) WHOLESALSA (g) RETAIL

DO AND LEARN

Make a list of atleast 10 business enterprises of your locality. Classify them as industry, trade and auxiliaries to trade. Take a note of the nature of their activity and prepare a chart.



Note

ROLE PLAY

1. Sohan's daughter Gita wants to start her own hair salon. She is not supported by her father who wants Gita to become a lawyer. Following is a beginning of the discussion between Mr. Sohan and his daughter Gita

Sohan : Beta! I want you to utilize your education and serve the society by being a lawyer and be independent.

Gita : Papa! I am more concerned about my personal satisfaction in my career rather than being independent. I don't want to be a public servant. I want to earn money & be a employment generator.

Sohan : Listen to me, there is nothing like satisfaction. Serving society will give you more satisfaction than earning money only.

Gita : Papa! Employment generation is also a way to serve the society. Choose a role for yourself and one for your friend and give your arguments in favour of, or against the protagonist as given in the example.

(You are free to select any other concept covered in this lesson to develop your own script. Start playing your roles and enjoy your study).

2. Shweta is interested to start a business in the field of service industry. Her friend Kabir told her that there were so many opportunities in this field.

Shweta : Kabir I want to start a business in the field of service industry.

Kabir : Very good, Shweta. This is a good idea. I have studied in my book of Business Studies of NIOS that there are so many risks in the field of service industry.

Shweta : Please tell me about these risks.

Choose a role for yourself and one for your friend and continue this conversation to explain the various types of risks in service industry and their causes.

WHAT HAVE YOU LEARNT

