BUSINESS STUDIES

Class-11

Chapter - 01

NATURE AND PURPOSE OF BUSINESS

HISTORY OF TRADE AND COMMERCE

HISTORY OF TRADE AND COMMERCE

- **India has Himalayas in the north, bordered leading to Silk Route. The maritime routes linked the east and west by sea and were used for trade of spices, as Spice Route.**
- **Archaeological ancient India trade was mainly carried out by water and land silver, copper, coloured gemstones, etc.**

INDIGENOUS BANKING SYSTEM

1. Metal coin became common medium of exchange.
2. Documents such as Hundis and Chitti were used for buying and selling on credit.
3. Hundi involved a contract which-
   (i) Warranty the payment of money. It indicated an unconditional promise.
   (ii) Could be transferred through valid negotiation.

INDIGENOUS BANKING SYSTEM

4. **Development of Indigenous banking system. This played a special role.**
   - **(i) People began to deposit precious metals with lending institutions acting as bankers or seths.**
   - **(ii) These bankers and seths became an instrument for supplying money for producing more goods.**
   - **(iii) Indigenous banks played a special role in lending money and financing domestic trades.**

INDIGENOUS BANKING SYSTEM

5. **Agriculture and Domestication of animals also help to generate surplus and saving for investment:**
   - **(i) Due to favorable climatic conditions people of India were able to raise two or three crops in a years.**
   - **(ii) In addition to agriculture by resorting to weaving. Dyeing fabrics, making clay pots, sculpting, cottage industries, masonry manufacturing, Transport (carts, boats, etc.) they were able to generate surplus for investment.**

RISE OF INTERMEDIARIES

Intermediaries played a very important role in promotion of trade. It includes:

1. **Commission Agents, brokers, distributors for wholesale and retail trade:**

   They helped in expanding trade and brought in huge amount of silver bullion into Asia and large share was in India.

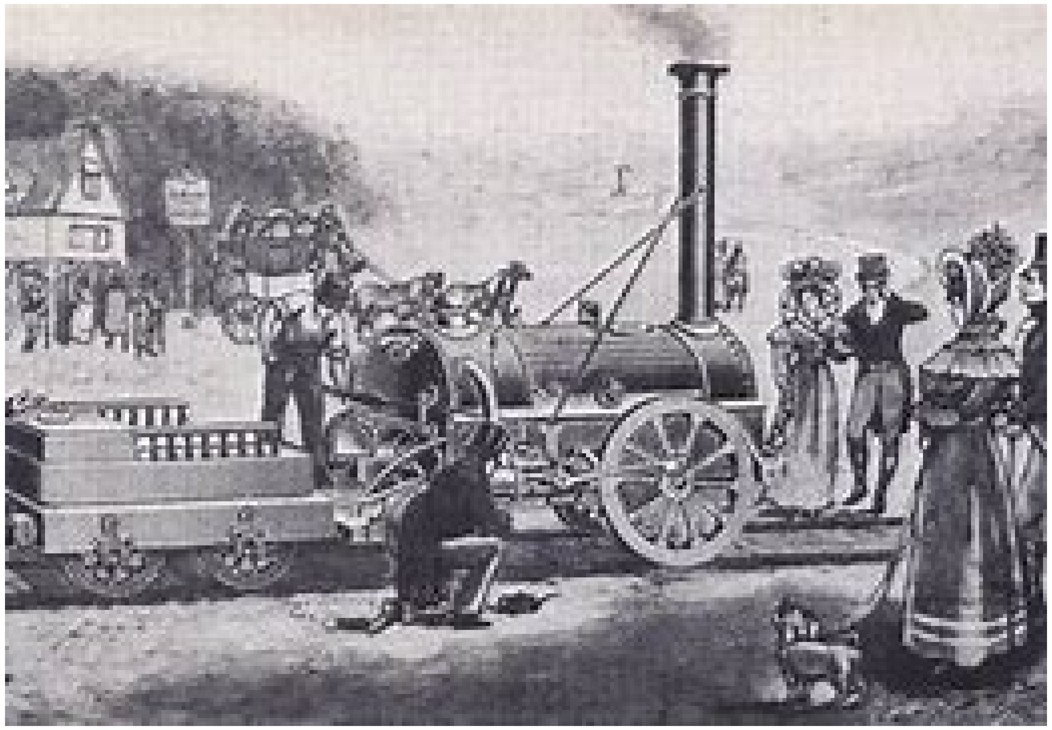
RISE OF INTERMEDIARIES

2. **The institutions of Jagat Seths Also played an important role during Mughal period and days of east India company. Bankers began to act Executors and trustees. They charged high rate of interest on foreign trade.**
3. **The emergence of credit transactions and availability of Loans enhanced commercial activities.**
4. **Indigenous banking system benefitted the manufacturers, traders and merchants with additional capital funds for expansion and growth.**
5. **Later on, Commercial and Industrial banks also provided both provided both short term and long term loans to traders.**

TRANSPORT SYSTEM

Land and water transport was popular during ancient time.

1. **Land Transport:**



- **Roads had assumed a key role in entire process of growth. The Northern Roadways route had streched from Bengal to Taxila.**
- **There were also some trade routes in south spreading east and west. Trade routes were wide and suitable for speed and safety.**

TRANSPORT SYSTEM

2. Waterway Transport :

- **Maritime trade was another important way of global trade. Malabar Coast on which Muziris is situated has long history of international trade.**
- **Pepper known as Black gold was traded through this route. It was in search of an alternative route to India for spices that led to discovery of America by Columbus.**
- **Calicut Coast was so popular that it was even visited by Chinese ships to acquire essential items from middle east as well as pepper, diamonds, pearls and cotton from India.**

TRADING COMMUNITIES

In different parts of countries, different communities dominated trade:

1. In Northern Region Punjabi and Multani merchants handled business.
2. In Western India Mahajan's were managing trade.
3. From South Chettiars were important traders.
4. In states of Gujarat, Rajasthan Bhats managed the trade.
5. In urban centres Mahajan Communities represented their Chief called Nagar Seth. Other groups active in urban areas were: Hakim and vaid (Physicians), Wakil (Lawyer), Pundit or Mullas (Teachers), Painters, musicians, Calligraphers, etc.

MERCHANT CORPORATIONS

1. To Protect the interests of traders some corporations were formed, they formed their own rules and regulations of membership, code of conducts, which even kings were supposed to accept and respect.
2. Trades had to pay Octroi duties on imported goods, Trade and Industry taxes were also a major source of Revenue.
3. Custom duties varied according to the communities, Tariffs varied from province to province.
4. The ferry tax was another source of income generation, it had to be paid for passengers goods, cattle and carts.

MERCHANT CORPORATIONS

5. Local bodies used to receive tax.
6. The guild (head of Mahajans) used to deal directly with kings or tax collectors and settle the market toll on behalf of all the merchants.
7. The guild merchants also acted as custodian of religious interest. They undertook the task of building temples and made donations by levying taxes on their members.
8. Due to commercial activities big merchants gain power in society.

MAJOR TRADE CENTRES

- **Patliputra : The Following were the leading trade centers in ancient India.**

  Known as Patna today. It was not a commercial town, but also a major centre for export of stones.

- **Peshawar :**

  It was an important export centre for wool and for import of horse. It had huge commercial transactions between India, Chine and Rome.

MAJOR TRADE CENTRES

- **Taxila :**

  It was a major centre of land route between India and Central Asia. It was also a city of financial and commercial banks. It was a place of Buddhist centre of learning. The famous Taxila university flourised here.

- **Indraprastha :**

  It was a commercial Junction o Royal Road. Where most routes leading to East, West, South and North converged.

MAJOR TRADE CENTRES

- **Mathura :**

  It was an emporium of trade. Many routes from South India touched Mathura and Bharuch.

- **Varanasi :**

  It grew as major centre of textile industry and become famous for beautiful gold silk cloth and sandalwood workmanship. It had link with Taxila and Bharuch.

MAJOR TRADE CENTRES

- **Mithila :**

  Mithila established trading colonies in South China especially in Yunnan.

- **Ujjain :**

  Agate, Carnelian, muslin and mallow cloth were exported form Ujjaain to different centres.

- **Surat :**

  Textile of Surat were famous for their gold border (zari). Surat's hundis were honoured in far off markets of Egypt and Iran.

- **Kanchi :**

  Here Chinese used to come in foreign ships to purchase pearls, glass and raw stones and in return they sold gold and silk.

MAJOR TRADE CENTRES

- **Madura :**

  It was the capital of Pandayas. It attracted foreign merchants particularly Romans for carrying out overseas trade.

- **Kaveripatta (Also known as Kaveripatnam) :**

  It was scientific in its construction as city provided loading, unloading and strong facilities of merchandise.

  It was a centre of trade for perfumes, cosmetic, scents, silk, wool, cotton, corals, pearls, gold and precious stones.

- **Tamralipt :**

  It was one of the greatest port connected both by sea and land with west and far east. It was linked by road to Banaras and Taxila.

MAJOR EXPORTS AND IMPORTS

- **Major Exports included:**

  Wheat, sugar, indigo, opium, sesame oil, cotton, parrots, live animals and animal products like hides, spins, furs, horns, tortoise shells, pearls, Sapphire, quartz, etc.

- **Major Imports included :**

  Horses, animal products, Chinese silk, Flax linen, wine, gold, silver, tin, copper, lead, rubies, coral, glass, amber, etc.

POSITION OF INDIAN SUB-CONTINENT IN WORLD ECONOMY (1 AD UPTO 1991)

- **India was largest economy if the ancient and Medieval World.**
- **Controlling about one Third and one forth of the world's wealth.**
- **The country was referred as Swaranbhumi and Swaran deep in writings of many travellers.**
- **The precolonial period in Indian History was an age of prosperity of Indian economy and made the Europeans embark great voyoage of discovery .**
- **They soon realised the reward of trade in exchange of gold and silver.**

POSITION OF INDIAN SUB-CONTINENT IN WORLD ECONOMY (1 AD UPTO 1991)

- **Despite of growing commercial sector India was far behind Western Europe in technology, innovation and ideas. It was due to:**
  a. **Increasing Control of East India company causing lack if freedom.**
  b. **No occurrence of agricultural and scientific revolution.**
  c. **Limited reach of education to the masses.**

POSITION OF INDIAN SUB-CONTINENT IN WORLD ECONOMY (1 AD UPTO 1991)

- **The British Empire began to take roots in India in the mid 18th century. The east India company used revenues generated by our provinces for purchasing raw materials, spices and goods. This lead to stop of inflow of foreign exchange.**

- **This changed the condition of Indian economy from being an exporter of processed goods to the exporters of raw materials and buyers of manufactured goods.**

INDIA BEGINS TO REINDUSTRIALISE

After the Independence the process of rebuilding of economy started. When India started centralised planning.

- **First five year plan was implemented in 1952, due importance was given to establishment of modern technological and Scientific institutions, space and nuclear Programmes.**
- **Despite these efforts Indian economy could not develop at rapid Pace, due to lack of capital formation, Rise in population, huge expenditure on defence and inadequate infrastructure.**

INDIA BEGINS TO REINDUSTRIALISE

- **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.**
- **Rising Incomes, Savings , Investment Opportunities, increased domestic consumption and younger population ensures growth for decades to come.**

INDIA BEGINS TO REINDUSTRIALISE

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

BUSINESS STUDIES

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NATURE AND PURPOSE OF BUSINESS

CONCEPT OF BUSINESS

MEANING OF BUSINESS

Definition:

"Business is a human activity directed towards producing or acquiring wealth through buying and selling Goods."

- Lewis H. Honey

Business is a wide term. It includes all Occupations in which people are busy in earning income either by production or purchase and sale or exchange of goods and services to satisfy the needs of other people with the main objective of earning profit.

MEANING OF BUSINESS

Business includes the following activities.

i. **Creating a customer**
ii. **Converting economic resources into goods and services**
iii. **Innovating new products or services**
iv. **Marketing these innovative products**

CHARACTERISTICS OF BUSINESS

Following are the main characteristics of Business:

1. **An Economic Activity :**

   Business is considered as an economic activity as it is undertaken with the objective or aim of earning money and livelihood and not for psychological satisfaction.

CHARACTERISTICS OF BUSINESS

2. **Dealing In Goods or Services on a Regular Basis:**

   Another important feature of business is that it must sell or exchange goods or services on a regular basis.

   For example, if a person sells his house to buy a new house, he is not doing business. But if a person buys and sells houses on a regular basis to earn commission, then it will be considered as business.

CHARACTERISTICS OF BUSINESS

3. **Profit Earning :**

   The main purpose of Business is earning profit. If the profit motive is missing in a transaction, then it cannot be considered as business transaction. For example, goods given in charity are not a business activity.

CHARACTERISTICS OF BUSINESS

4. **Uncertainty of Return / Risk :**

   Another important feature of Business is the presence of risk factor in the transaction. There is always a possibility of losses. It is not certain that a businessman will always earn adequate profit, as market conditions may change. All these can lead to loss. So in business transaction there is always an element of risk involved.

HUMAN ACTIVITIES

All human beings, to perform some or the other activity to satisfy their needs. They pursue psychological satisfaction. Activities which human beings undertake are known human activities. Some of these activities are undertaken to earn money but others are performed to derive personal satisfaction.

TYPES OF HUMAN ACTIVITIES

Human activities can be classified into two categories:

- **Economic activities**
- **Non-economic activities**

ECONOMIC ACTIVITIES

Activities which are undertaken by people economic activities. Purpose of economic activities should be expectation of money income which is used for further creation of wealth or assets.

❖Types of Economic Activities

Economic activities can be divided into three categories:

- **Business**
- **Profession**
- **Employment**

ECONOMIC ACTIVITIES

- **Business :**

  Business refers to those economic activities which are connected with the production, purchase, sale or distribution of goods or services with the main objectives of earning profit.

  Example: Fishing, mining, farming, manufacturing , wholesales etc.

ECONOMIC ACTIVITIES

- **Profession :**

  Profession refers to the activities which require special knowledge and skill to be applied by an individual in his work to earn a living. These activities are subject to guidelines or codes of conduct laid down by the professional bodies.

  Example: lawyers are professionals engaged in the legal profession governed by the Bar Council of India.

ECONOMIC ACTIVITIES

- **Employment :**

  Employment refers to an activity in which an individual works regularly for another person and gets remunerated in return. Those who are employed by others are known as employees.

  Example of employment: Working in offices, banks, insurance companies, shops, as a manager, clerk, peon, salesman etc.

BUSINESS, PROFESSION AND EMPLOYMENT

Distinction between Business, Profession and Employment				
Basis of Distinction		Business	Profession	Employment
1.	Commencement	Business may commence with the decision of entrepreneur	Profession may commence on completion of a degree course and by getting a certificate or practice.	Employment commences on joining duty by entering into a service agreement.
2.	Qualification	No minimum qualification required before starting business.	Prescribed and professional qualification and training required.	Qualification depends on the nature of job.

BUSINESS, PROFESSION AND EMPLOYMENT

3.	**Risk**	**In business, there is always risk and uncertainty.**	**In Profession, there is little risk present.**	**In employment, there is no risk involved.**
4.	**Main Objective**	**The main objective of business is to earn profit.**	**The main objective of profession is to provide service.**	**The main objective of employment is to earn income in the form of salary by satisfying the employer.**

BUSINESS, PROFESSION AND EMPLOYMENT

5.	**Code of Conduct**	**There is no prescribed code of conduct for business.**	**Code of conduct Is prescribed by the professional associations.**	**The terms and conditions of service contract are applicable on employee.**
6.	**Nature of work involved**	**It involves production, purchase and sales or exchange of goods and services.**	**It involves rendering of personalised services of specialised of specialised nature.**	**In involves performing the work as assigned by the employer.**
7.	**Reward**	**Reward for Business is called profit.**	**Reward for profession is called fees.**	**Reward for employment is called salary or wage.**

NON – ECONOMIC ACTIVITIES

❖Non – economic Activities

- **The activities which are undertaken by an individual with a motive of getting psychological satisfaction are known as non – economic activities e.g., going to temple, charity, social services, production for self – consumption etc.**
- **Whether an activity is economic or non – economic, it depends on the motive with which it is performed. The same activity can be economic if it results in earning money and can be non – economic if end result is not monetary gain.**

NON – ECONOMIC ACTIVITIES

- **For example, when a teacher is teaching In a school, it is an economic activity because he or she gets salary for teaching and when the teacher is teaching his or her son at home, then it is non – economic as he or she will not get monetary benefit for teaching but the end result is satisfaction of teaching one's own child.**
- **In the same way, when a farmer is producing crop for selling in the market, it is called economic activity but when he is cultivating crop for self – consumption then it is called non – economic activity.**

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NATURE AND PURPOSE OF BUSINESS

OBJECTIVES OF BUSINESS

OBJECTIVES OF BUSINESS

Objectives are the end towards which the activities of the business are directed. These are the goals established to guide the effort of the company. As far as possible a businessman must set up specific objectives. For Example, the specific objectives of the firm can be "Increase in sale by 10% in one year time". Whereas general objective can be "Increase in sale".

OBJECTIVES OF BUSINESS

The business objectives may be classified broadly into three categories. These are:

- Economic Objectives
- Social Objectives
- Human or Personal Objectives

ECONOMIC OBJECTIVES

As business is an economic activity so the most important objectives of Business are economic objectives. Under economic objectives, the following objectives are included:

- **Survival :**

The basic purpose of every organisation is to survive and exist in the competition market for a long period of time and it is possible only when it is able to cover its cost and earn profit.

ECONOMIC OBJECTIVES

- **Profit :**

  The most important objective of every organisation is earning adequate amount of profit. Profit is essential for survival, growth and expansion of business. Profit is the reward given to businessman for bearing risk.

ECONOMIC OBJECTIVES

- **Growth :**

  Business organisation must grow and expand their activities. The success of any organisation is measured by the growth rate and growth is measured by the growth is measured in terms of sales, number of braches, number of products, number of employees etc.

SOCIAL OBJECTIVES

The social objectives of a business are:

- **Supply of Desired Quality of Products:**

  Customers prefer to buy the products only when they are of satisfactory quality and are available at a reasonable price. Today's customer is a quality – conscious customer and he experts value for money. Quality may mean differently for different products.

SOCIAL OBJECTIVES

For example, for consumer goods such as refrigerator, TV, car, scooter, the quality may mean durability and for products like pressure cooker, gas cylinder, etc., quality may mean purity. To survive in the market for a long run and to maintain the goodwill, the businessmen must supply products with right quality at right price.

SOCIAL OBJECTIVES

- **Avoidance of Unfair Trade Practices :**

  Anti – Social or unfair trade practices include black-marketing, adulteration, hoarding overcharging etc. Exaggerating in advertisements about the uses of products is also an unfair trade practice.

SOCIAL OBJECTIVES

No society accepts these practices. With these practices a businessman will not only lose his reputation but it is punishable under law. The punishment can be in the form of fine or imprisonment or both. The Businessman must have social objective to avoid these practices for earning profit.

SOCIAL OBJECTIVES

Employment Generation:

Unemployment is a major problem for every society . The businessman must create employment opportunities and help in overcoming this basic problem of developing countries. The business employs people to perform different types of work.

SOCIAL OBJECTIVES

By employing opportunities, a businessman helps in flow of income in the society. While creating employment opportunities, a businessman must give special consideration to handicapped, disabled and poor people. This will improve the public image of the businessman. The employees must be imparted training also so that they can update their knowledge and can fulfill the demands of the job.

SOCIAL OBJECTIVES

Social Service or Community Service :

The large business houses undertake various projects of community services such as running charitable dispensaries, schools, hospitals etc.

SOCIAL OBJECTIVES

The big companies can help in social service programmes run by NGOs and Government organisations by contributing large amount of funds in the form of donations, charity etc. Participating in social service programmes adds to the reputation of the company is spending a fixed amount every year on social service projects.

SOCIAL OBJECTIVES

Avoidance of Pollution :

Industrialisation has led to a major problem of pollution. The industries throw or drain their waste in lakes, rivers etc. which pollutes water. The smoke coming out of the chimneys of industries pollutes the environment.

SOCIAL OBJECTIVES

As the businessman had added to the spreading of pollution, so it becomes the moral duty of the businessman to come forward and help in solving the problem of pollution. The businessman must adopt environment – friendly techniques of production and should drain the waste materials in such a way that these do not pollute the environment.

HUMAN OR PERSONAL OBJECTIVES

Human or individual objectives are related to employees of the organisation. Employees are valuable resources who contribute significantly to the success in business. To get maximum from employees and to keep the employees motivated, the business must take care of their employees by pursuing the individual objectives. The common individual objectives are :

HUMAN OR PERSONAL OBJECTIVES

- **I. Providing good working conditions.**
- **II. Payment of competitive and satisfactory wages and salaries.**
- **III. Personal growth and development of employee by imparting training to employees and keep updating their knowledge.**

HUMAN OR PERSONAL OBJECTIVES

IV. Peer recognition and respect by encouraging employees to take initiative and participating in decision – making.

V. Providing special benefits such as housing facility, medical facility, free education of children etc.

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NATURE AND PURPOSE OF BUSINESS

CLASSIFICATION OF BUSINESS ACTIVITIES (INDUSTRY)

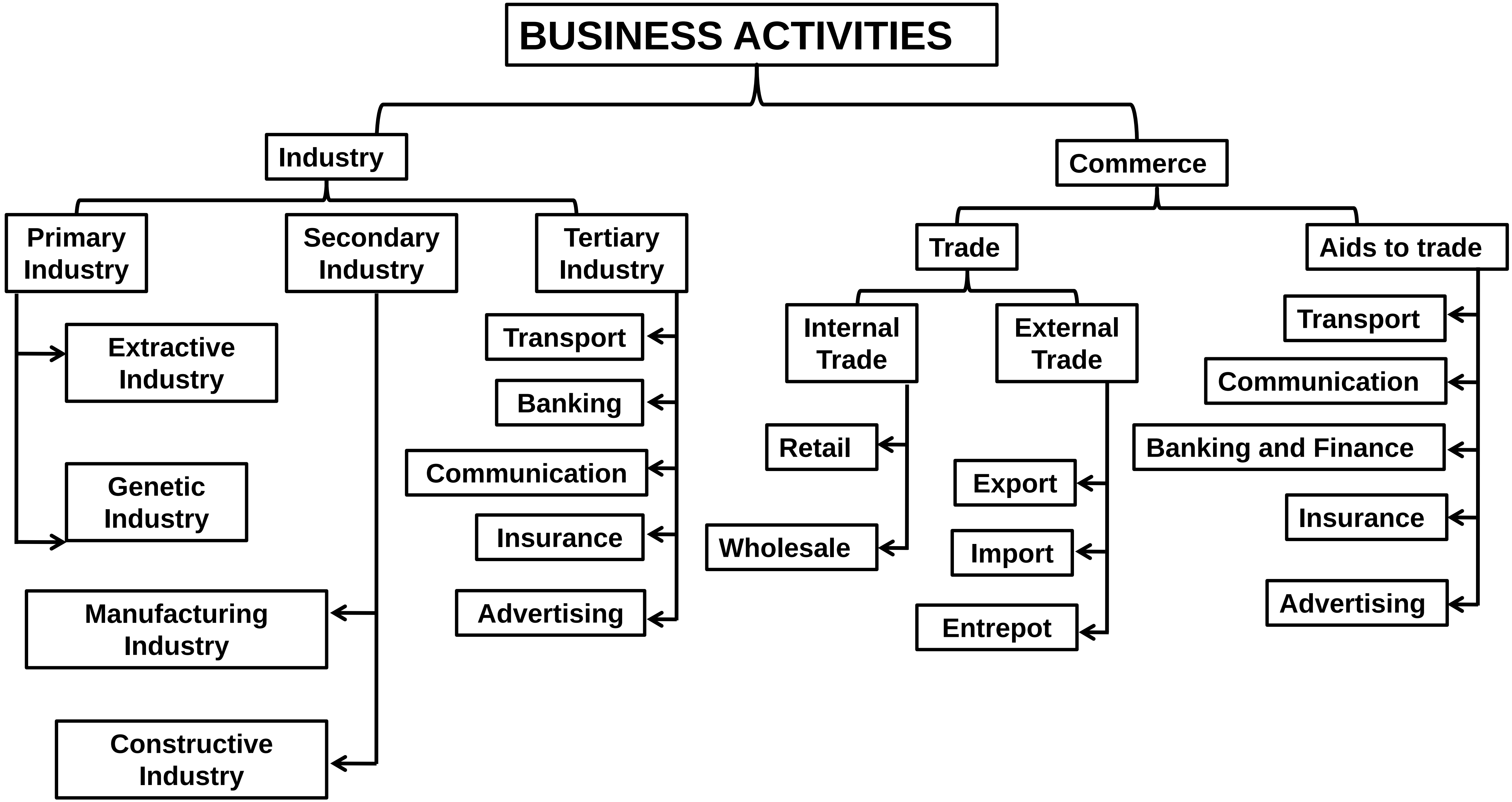
CLASSIFICATION OF BUSINESS ACTIVITIES

Business activities can be classified on various bases. The common basis of classification is on the basis of function.

Basic of Functions : All Business activities can be classified into two categories. These are :

- **Industry**
- **Commerce**

CLASSIFICATION OF BUSINESS ACTIVITIES



INDUSTRY : MEANING AND TYPES

Industry refers activities related to rearing and reproduction of animals or other living species. Purpose of industry is to create form utility by converting raw materials into useful of finished products. For example, Textile Industry refers to all the production units related to cloth manufacturing Cement Industry refers to all firms manufacturing cement.

INDUSTRY : MEANING AND TYPES

Industry may produce consumer goods or capital goods. Goods such as bread, butter, cloth, radio etc. are consumer goods. These goods are directly used by the consumer. Goods such as machinery, cement etc. are called capital goods as these are used further in the production process to make useful products. Industry can be classified into two broad categories.

- **Primary Industry**
- **Secondary Industry**
- **Tertiary Industry**

INDUSTRY : MEANING AND TYPES

❖Primary Industry

Primary Industry includes all those industries which are concerned with extraction of natural resources and reproduction of living species.

These industries can further be classified into two categories:

- **Extractive Industries**
- **Genetic Industry**

INDUSTRY : MEANING AND TYPES

Extractive Industries :

Extractive Industries are those which involve extraction of something from natural resources such as minerals from earth, fish from rivers and seas. Timber from forest etc. The products of extractive industry can be directly used or become the raw material for other industries.

INDUSTRY : MEANING AND TYPES

Genetic Industry :

The industries involved in the activities of rearing and breeding of living organisms i.e. birds, plants, animals etc. are known as Genetic Industry. For example, rearing of cattle for milk, dairy farms, poultry farms, rearing of plants in nursery, growing fish in ponds (Pisciculture) etc. are included in Genetic Industry.

INDUSTRY : MEANING AND TYPES

Secondary Industry :

The secondary Industry makes use of products which are extracted and produced by Primary Industry as their raw materials and produce finished products. For example, mining of iron ore is done in primary Industry but steel manufacturing is done in Secondary Industry.

There are two kinds of Secondary Industry :

- **Manufacturing Industries**
- **Construction Industry**

INDUSTRY : MEANING AND TYPES

❖Manufacturing Industries

These industries are engaged in the process of conversion of raw materials or semi – finished goods into. For example , timber is converted into furniture, iron into steel, sugarcane into sugar, cotton into cloth etc.

The manufacturing industries produce two types of goods :

INDUSTRY : MEANING AND TYPES

- **Consumer goods :**

  The Goods which can be directly consumed by the consumer are known as consumer goods. These goods are used for days – to – day consumption. For example, cloth, oil, soap, bread etc.

INDUSTRY : MEANING AND TYPES

- **Industrial Goods :**

The goods which are produced for manufacturing consumer goods are known as industrial goods like machinery, equipment, tools etc. Which are required to manufacture consumer goods.

Manufacturing Industries are of the following types :

INDUSTRY : MEANING AND TYPES

- **Analytical Industries :**

  In Analytical Industry, the basic raw material is broken into different parts to produce finished products. For example, crude oil is processed and many finished products such as petroleum, diesel, kerosene oil, gasoline etc. are manufactured.

INDUSTRY : MEANING AND TYPES

- **Synthetic Industry :**

  In Synthetic Industry, two or more materials are mixed to manufacture some new product. For example, various chemicals are mixed to produce soap, paints, cosmetics etc.

INDUSTRY : MEANING AND TYPES

- **Assembly Industry :**

  In Assembly Industry, the various finished products are combined to produce a new finished product. For example, manufacturing of computers, television, watches, automobiles, cars etc.

INDUSTRY : MEANING AND TYPES

- **Construction Industries**

  These industries are iron and steel, lime etc. the unique feature of these industries is cannot be transferred or shifted to the market.

INDUSTRY : MEANING AND TYPES

❖ **Tertiary or Service Industry**

Tertiary Industry services which facilitate a smooth goods and services. This industry helps in the activities of the primary and secondary other words, this industry provides services which support the activities of primary Industry, that is why it is also known as service Industry.

INDUSTRY : MEANING AND TYPES

- **Transport : It facilitates movement of goods from one place to another.**
- **Banking : provides credit facility to industries and trading firms.**
- **Insurance : Provides coverage from various types of risks.**
- **Warehousing : Provides storage place for goods produced by primary and secondary industry.**
- **Advertising : provides information to consumer.**

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NATURE AND PURPOSE OF BUSINESS

CLASSIFICATION OF BUSINESS ACTIVITIES (COMMERCE: TRADE)

COMMERCE

Commerce refers to all those activities which help directly or Indirectly in the distribution of goods to the ultimate consumer. Will be no use of producing goods unless and until these goods reach the ultimate at one place and different places are not aware of what kind of goods are produced by the Goods are produced in a large quantity and demanded by consumers in a small quantity commerce.

COMMERCE

- **Role of Commerce – Trade and Auxiliaries**
- **Helps in Removing the Hindrance of Persons :**
- **A large variety of goods are produced by a group of persons called producers. These goods are produced for another group of persons called consumers. There is no direct relation between producers and consumers. The trade segment of commerce creates a link between producer and consumers.**

COMMERCE

- **Helps in Removing the Hindrance of Place :**

  Goods are produced at one place whereas consumers are scattered in different corners of the country. There is a place gap between the producers and consumers. The transport segment of commerce helps in removing the place gap. The transport moves goods from the place of production to the markets which are easily accessed by the customers.

COMMERCE

- **Helps Removing the Hindrance of Exchange :**

  The goods and services produced by the manufacturer are sold to buyer in exchange of money. The common medium of exchange is circulated by the banking branch of commerce. The banks help the buyers and the sellers in making and collecting payments. Now businessmen can send money form one place to the other in the form of bank draft, cheques etc. Banks are also financing businessmen by grating them loan, credit facility etc.

COMMERCE

- **Helps in Removing the Hindrance of Risk :**

  There are different types of risks which a businessman has to face. The insurance branch of commerce help in removing the hindrance of risk by providing protection and compensation to the insured. Insurance companies agree to undertake to make good the loss suffered by the businessmen.

COMMERCE

- **Helps in Removing the Hindrance of Knowledge :**

  Generally the consumer and buyer are unaware about the new goods produced by the manufacturer as there is no direct communication between the manufacturer and the ultimate consumer.

COMMERCE

The advertisement branch of commerce helps in removing the hindrance of knowledge by spreading the awareness about the new products and their utility. For example, everyone known that I – 9 is the latest microprocessor of computer because of advertisement.

COMMERCE

- **Classification of Commerce**

Commerce can be classified into two broad categories :

- **Trade**
- **Aids to Trade**

COMMERCE

❖ **Trade**

Trade is an integral part of commerce and selling of goods and services. Trade segment of commerce brings together the manufacturer and the consumer a link between the consumer. In the absence of traders the manufacturer will have to search for manufacturers. Trade classified into two types :

- **Internal Trade**
- **External Trade**

COMMERCE

❖ Internal Trade

Internal Trade refers to buying and selling of goods or services within the geographical boundaries of a country. It is also known as Home Trade. Under internal trade, goods and services are bought and sold in the home currency only. Internal trade can be of two types :

- **Wholesale Trade**
- **Retail Trade**

COMMERCE

- **Wholesale Trade :**

  It refers to buying and selling of goods and services in large quantity. The wholesalers buy goods directly from the manufacturer and sells these goods to the retailers. Generally a wholesaler is specialised in one line of product. He maintains a large stock.

COMMERCE

- **Retail Trade :**

  it refers to buying and selling of goods and services in small quantities. The retailer buys goods from the wholesaler and sells these goods to the ultimate consumer.

COMMERCE

- **External Trade**

  It refers to buying and selling of goods and services beyond the geographical limits of the country. It is also known as trade between two or more countries. In external trade, the market is very wide.

COMMERCE

External trade enables the businessmen to use the resources of their country in a competitive way. The external trade involves completion of various rules and regulations such as licensing, custom clearance etc.

- **Export Trade**
- **Import Trade**
- **Entrepot Trade**

COMMERCE

- **Export :**

  It refers to sale of goods to a foreign country. The developing countries like India encourage export as it results in increasing foreign reserves.

- **Import :**

  It refers to buying of goods from a foreign country. Import of technology or capital goods is encouraged as compared to import of consumer goods.

COMMERCE

- **Entrepot :**

  It refers to import of goods for the purpose of export. In Entrepot, the goods are purchased from a foreign country but not for consumption in home country, but for selling these goods to some other foreign country.

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Chapter - 01

NATURE AND PURPOSE OF BUSINESS

CLASSIFICATION OF BUSINESS ACTIVITIES (COMMERCE: AIDS TO TRADE)

COMMERCE

❖ Aids or Auxiliaries to Trade

The activities of trade are known as Aids to Trade. These activities make buying and selling of goods more easy. These activities are known as services and together constitute service sector or tertiary sector of commerce.

COMMERCE

- **Transport and Communication :**

Transport refers to the movement of goods from one place to another. The production of goods takes place at one place whereas these are demanded in different parts of the country. The obstacle of place is removed by the transport.

COMMERCE

For example, tea is produced in Assam and Darjeeling but is consumed in all the parts of the country. Along with transport, communication is also an important service. Communication helps in exchange of information between producer, consumers and traders. The common communication services are postal service, telephone service, fax , Internet etc.

COMMERCE

- **Banking and finance :**

  Banks and financial institutions provide credit facility, loan etc. Provide finance for smooth flow of business activities. Banks help the businessmen to overcome the problem of funds. Along with provision of funds, the commercial banks provide many other facilities such as collection and deposit of Cheques, issue of bank draft, discounting of bills of exchange etc.

COMMERCE

- **Insurance :**

  Businessmen have to bear various types of risks. Insurance provides protection form some kinds of risk such as risk of loss due to fire, theft, accident etc. The insurance company provides protection to employees also against the risk of accident while working.

COMMERCE

- **Warehousing :**

  Usually there is a time gap between the production and consumption of goods. Goods are not consumed immediately when these are product. For example, wheat, rice etc. are produced in a particular season only but these are consumed throughout the special arrangement has to be made to store the goods to prevent the loss and to keep them fresh. Warehousing helps the businessmen to overcome the problem of storage.

- **Advertising :**

  Practically, it is impossible trader to contact each every customer helps to overcome this problem. Goods are inform the consumers quality and prices. Advertisement spreads awareness among the consumers regarding new goods and their uses.

BUSINESS STUDIES

Class-11

Chapter - 01

NATURE AND PURPOSE OF BUSINESS

ROLE OF PROFIT IN THE BUSINESS

ROLE OF PROFIT IN THE BUSINESS

Business is an economic activity. So earning profit is the main objective of every Business. Although earning profit cannot be the only or sole objective of a business, but it is a very important objective of every business. A businessman earns profit for various reasons.

ROLE OF PROFIT IN THE BUSINESS

These reasons are :

1. **Survival:**

   A business and businessman cannot survive for a long time without earning adequate profit. Profit is a source of income for a businessman which becomes his means of livelihood. Profit is needed to satisfy the needs of the businessman and his family members.

ROLE OF PROFIT IN THE BUSINESS

2. **Expansion and Growth :**

   The business is expanded only when it is earning sufficient amount of profit. When profit is large, a part of it can always be reinvested for expansion or diversification of production and other operations of the business. Retention of profit is an internal source of funds.

ROLE OF PROFIT IN THE BUSINESS

The internal source of fund is more dependable and a cheaper source as compared to external source (bank, financial institutions etc.). Because When business borrows from external sources it has to mortgage its assets and pay high rate of interest, whereas on retained profit there is no interest and company can easily use it for expansion and growth projects.

ROLE OF PROFIT IN THE BUSINESS

Role of profit

- Survival
- Expansion And Growth
- Symbol of Efficiency or an index of performance
- Reward for Bearing Risk
- Helps to Gain Goodwill

ROLE OF PROFIT IN THE BUSINESS

3. **Reward for Bearing the Risk :**

   Profit is considered as a price or reward paid to a businessman for bearing the risk. Businessman invests money in the business only with the hope of earning profit. The desire to earn profit motivates the businessman to bear the uncertainties and unexpected risks. Profit and risk are directly related to each other. The higher the risk, the more is the profit and lower the risk, less is the profit.

ROLE OF PROFIT IN THE BUSINESS

4. Helps to Gain Reputation or Goodwill :

- **A profit earning company always has a better reputation in the market as compared to companies which are running In loss. The rate of earning profit helps in creating a goodwill of the company in the market.**
- **The market price of shares increases with the increase in the profit. The companies with high rate of profit are able to raise loans and obtain credit more easily. Even efficient employees prefer to work in profit earning companies as these are able to offer higher wages and salaries.**

BUSINESS STUDIES

Class-11

Chapter - 01

NATURE AND PURPOSE OF BUSINESS

BUSINESS RISK

BUSINESS RISK

Business risk refers to the probability of losses or inadequate profits due to uncertainties or unexpected events, which are beyond control. In words, we can say business risk means a chance of incurring losses or less profit than expected.

BUSINESS RISK

For example, demand for a product may decline due to change in tastes and preferences of the customers or due to change in fashion or due to change in competitor’s policy etc. These factors cannot be controlled by the businessmen and these can result in decline of profit or can also lead to loss.

BUSINESS RISK

❖Nature of Business Risk

1. **Business risk arises due to uncertainties :**

   Uncertainties mean when you are not sure of what is going to happen in future. Common examples of uncertainties are : change In demand, government policy, technology etc. Business risk is due to these uncertainties.

BUSINESS RISK

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

   Risk is an important characteristic of business. No business can avoid risk although degree or risk may vary. Risk can be reduced but cannot be eliminated.

BUSINESS RISK

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

The degree of risk depends upon the types of business ; for example, a business involved in fashion items bears more risk as compared to business involved in standardised goods. Similarly, a business operating at large scale bears more risk as compared to small – scale business houses.

BUSINESS RISK

❖ Causes of Business Risk

Common causes of risk are :

1. **Natural Causes :**

   An independent phenomenon and human beings have no control over it. Natural calamities like earthquake, Flood, drought, famine etc. affect a business a lot and can result in heavy losses.

BUSINESS RISK

2. **Human Causes :**

Human causes are related to a chance of loss due to human being or employees of the organisation. The dishonesty of employees can bring heavy losses for business e.g., the employees may leak a business secret to a competitor and may commit fraud also. The employees may hamper the production by going on strikes, riots etc. This can also lead to heavy loss for business.

BUSINESS RISK

3. Economic Causes :

Economic causes are related to a change of loss due to change in market condition. There can be price fluctuations in the market, there can be change in fashion, taste, preferences and demands of customers.

BUSINESS RISK

These can be change in the degree of competition. All these have a direct impact on the earnings of the business. Even change in Government policy affects the business a lot. For example, in 1971, When Janata government came in power the Coca – Cola Company and many other foreign companies were sent back from India.

BUSINESS RISK

4. **Physical Causes :**

   All the causes which result in damage of assets are considered as physical causes, For example, change in technology may result in machinery being outdated, use of old technology, mechanical defects may also result in damage of assets such as bursting of boiler, accident to employee etc.