

CHAPTER - 1

NATURE & PURPOSE OF BUSINESS

I. Multiple Choice Questions

Question 1. Which of the following does not characterise business activity?

- (i) Production of goods and services
- (ii) Presence of risk
- (iii) Sale or exchange of goods and services
- (iv) Salary or wages

Question 2. Which of the broad categories of industries covers oil refinery and sugar mills?

- (i) Primary (ii) Secondary
- (iii) Tertiary (iv) None of them

Question 3. Which of the following cannot be classified as an auxiliary to trade?

- (i) Mining (ii) Insurance
- (iii) Warehousing (iv) Transport

Question 4. The occupation in which people work for others and get remunerated in return is known as

- (i) Business (ii) Employment
- (iii) Profession (iv) None of them

Question 5. The industries which provide support services to other industries are known as

- (i) Primary industries (ii) Secondary industries
- (iii) Commercial industries (iv) Tertiary industries

Question 6. Which of the following cannot be classified as an objective of business?

- (i) Investment (ii) Productivity
- (iii) Innovation (iv) Profit earning

Question 7. Business risk is not likely to arise due to

- (i) Changes in government policy (ii) Good management
- (iii) Employee dishonesty (iv) Power failure

Answer: 1. (iv) 2. (i) 3. (i) 4. (ii) 5. (iv) 6. (i) 7. (ii)

II. Short Answer Type Questions

Question 1. State the different types of economic activities.

Answer: Different types of economic activities are of three types:

1. Business refers to those economic activities which are concerned with the production or purchase and sale of goods or supply of services with the main object of earning profits.
2. Profession refers to those activities which require special knowledge and skill to be applied by individuals in their occupations.
3. Employment refers to the occupation in which people work for others and get remunerated in return.

Question 2. Why is business considered an economic activity?

Answer: Any activity is called an economic activity when it is done with a view to earning money. The motive of a business is to earn profit primarily. However, there are some other objectives as well like increasing market share, improvement in productivity, employee satisfaction, consumer satisfaction, social objectives but the main and basic objective of a business is to make profits. Therefore, it is called economic activity.

Question 3. Explain the concept of business.

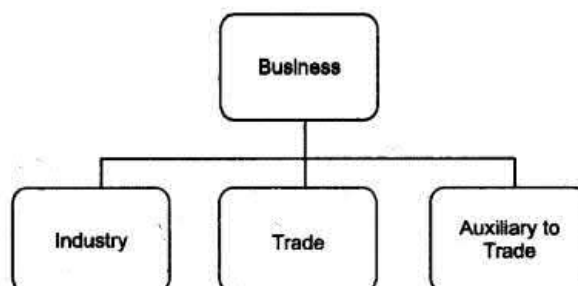
Answer: Business: An economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society is called business.

Characteristics of Business:

1. Economic activity: All business activities are economic activities and are done for the sole purpose of earning money.
2. Production and procurement of goods and services: A business activity involves production or procurement of goods and services. A manufacturer is involved in production, while a shopkeeper is involved in procurement.
3. Sale and exchange of goods and services for the satisfaction of human needs: Sale and exchange of goods and services is done to satisfy human needs.
4. Dealing in goods and services on a regular basis: One time dealing in goods or services cannot be termed as a business. The business should happen on a regular basis.
5. Profit earning: Profit earning is the fundamental motive of doing a business. Other motives are there but they depend on profit motive.
6. Uncertainty of returns: Returns can never be certain in business activity. This happens because of external factors which are outside the control of the business organization.
7. Element of risk: An element of risk is always present in business activity.

Question 4. How would you classify business activities?

Answer: Business activities can be classified in the following ways:



I. Industry: Different types of industries are as follows:

1. **Primary Industry:** The primary industry includes those activities through which the natural resources are used to provide raw materials to other industries. Primary industries are of two types.
2. **Secondary Industry:** Under this industry new products are manufactured by using the previously produced things e.g., producing cotton is a primary industry and manufacturing cloth out of cotton is a secondary industry. It is of two types.
3. **Tertiary or Service Industry:** It includes those services which help business to move smoothly e.g. transport, bank, insurance, storage and advertising.

II. Commerce: Commerce refers to all those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services. It includes trade and auxiliary to. trade. Trade refers to buying and selling of goods and services with the objective of earning profit. It is classified into two categories.

1. **Internal Trade:** It takes place within a country. Internal trade is classified into two categories—retail trade and wholesale trade.
2. **Retail Trade:** It refers to buying of goods and services in relatively small quantities and selling them to the ultimate consumers.
 - (a) **External Trade:** It happens between two or more countries. External trade can be classified into three categories.
 - (b) **Import Trade:** If goods are purchased from another country, it is called import trade.
 - (c) **Export Trade:** If goods are sold to other countries it is called export trade.
 - (d) **Entrepot Trade:** Goods are imported for export to other countries e.g. Indian firm may import some goods from America and export the same goods to Nepal.

III. Auxiliaries to Trade: All those activities which help in removing various hindrances which arise in connection with the production and distribution of goods are called auxiliaries to trade. An overview of these activities is given below:

1. **Transportation and Communication:** 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. Along with transport, communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.
2. **Banking and Finance:** Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.
3. **Insurance:** It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.
4. **Warehousing:** There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses.
5. **Advertising:** Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.

Question 5. What are various types of industries?

Answer: Different types of industries are as follows:

1. **Primary Industry:** The primary industry includes those activities through which the natural resources are used to provide raw materials to other industries. Primary industries are of two

types.

- **Extractive:** It refers to those industries under which something is extracted out of the earth, water or air e.g., coal, iron, gas etc.
- **Genetic:** It refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, tree planting etc.

2. Secondary Industry: Under this industry, new products are manufactured by using the previously produced things e.g., producing cotton is a primary industry and manufacturing cloth out of cotton is a secondary industry. It is of two types.

- **Manufacturing:** These industries convert raw materials or semi finished products into finished products e.g., paper from bamboo, sugar from sugar cane. It is further being divided into four parts.
- **Analytical:** Different things are manufactured out of one thing e.g., petrol, diesel, gasoline out of crude oil.
- **Processing:** Those industries wherein useful things are manufactured by making the raw material to pass through different production process e.g., steel from iron ores.
- **Synthetic:** Many raw materials are mixed to produce more useful product e.g., paints, cosmetics etc.
- **Assembling:** The parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches etc.
- **Construction Industry:** Such types of industries constructions of roads, bridges, buildings etc. are covered.

3. Tertiary or Service Industry: It includes those services which help business to move smoothly e.g. transport, bank, insurance, storage and advertising.

Question 6. Explain any two business activities which are auxiliaries to trade.

Answer: Two business activities which are auxiliary to trade are explained below:

1. **Transportation and Communication:** 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. Along with transport, communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.
2. **Banking and Finance:** Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank. Finance is the life blood of any business. We cannot think of any business which does not need finance and providing finance to other businesses become another business. Finance is also required for consumption purposes.

Question 7. What is the role of profit in business?

Answer: Profits play a vital role in any business. Earning of profits is essential for any business because of the following reasons given below:

- **Means of Livelihood:** Profits act as a means of livelihood for the entrepreneurs. Without profits, entrepreneurs cannot continue with the business.
- **Rewards for taking risks:** It provides returns for taking risks.
- **Funds for Growth:** It would provide funds for growth of the business.
- **Symbolic of efficiency and efficacy:** Profits symbolise that management is efficient and business is operating in a healthy manner.

- **Enhancement in goodwill:** A business making higher profits has a better goodwill and reputation in the market.

Question 8. What is business risk? What is its nature?

Answer: The term business risk refers to possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes and preferences of consumers, strike, increased competition, change in Government policy etc. These are of two types—speculative and pure.

Nature of Business Risks

1. **Business risks arise due to uncertainties:** Natural calamities, change in demand and prices, change in technology etc. are some of the examples of uncertainty which create risks.
2. **Risk is an essential part of every business:** No business can avoid risk. Risk can be minimised but cannot be eliminated.
3. **Degree of risk depends mainly upon the nature and size of business:** For small scale business it is less and for large scale business it is more.
4. **Profit is the reward for risk taking:** An entrepreneur assumes risks and in consideration he gets reward which is called profit. Greater the risk higher is the chance of profit.

III. Long Answer Type Questions

Question 1. Explain the characteristics of business.

Answer: Characteristics of business are as follows:

1. **An economic activity:** All business activities are economic activities and are done for the sole purpose of earning money.
2. **Production and procurement of goods and services:** A business activity involves production or procurement of goods and services. A manufacturer is involved in production, while a shopkeeper is involved in procurement.
3. **Sale and exchange of goods and services for the satisfaction of human needs:** Sale and exchange of goods and services is done to satisfy human needs.
4. **Dealing in goods and services on a regular basis:** One time dealing in goods or services cannot be termed as a business. The business should happen on a regular basis.
5. **Profit earning:** Profit earning is the fundamental motive of doing a business. Other objectives cannot be attained without it.
6. **Uncertainty of returns:** Returns can never be certain in business activity. This happens because of external factors which are outside the control of the business organization.
7. **Element of risk:** An element of risk is always present in business activity.

Question 2. Compare business with profession and employment.

Answer: Business has been compared with profession and employment in tabular form given below:

Basis of Distinction	Business	Profession	Employment
Mode of Establishment	Starts after completing some legal formalities if needed.	Membership of a professional body and certificate of practice required.	Start after getting appointment letter.
Qualification	No minimum qualification is necessary.	Professional qualification and training required.	Qualification and training required prescribed by the employer.
Capital Investment	Capital needed according to nature and size of business.	Limited capital for establishment.	No capital required.
Risk	It involves high risk.	The degree of risk is low.	No risk in it.
Code of conduct	No code of conduct.	Professional code of conduct is to be followed.	The terms and conditions of service contract are to be followed.
Nature of work	Provision of goods and services to the public.	Personalized services of expert nature.	Work allotted by the employee according to the contract.
Reward/Return	Profits.	Professional Fee.	Salary or wage.

Question 3. Explain with examples the various types of industries.

Answer: Different types of industries are as follows:

- 1. Primary industry:** Primary industry includes all those activities, which are connected with extraction and production of natural resources and reproduction and development of living organisms, plants, etc. Primary industries are of two types.

 - **Extractive:** It refers to those industries under which something is extracted out of the earth, water or air. e.g., coal, iron, gas etc.
 - **Genetic:** It refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, tree planting etc.
- 2. Secondary Industry:** Secondary industry includes all those activities, which are connected with using the materials, which have already been extracted at the primary stage. It is of two types.

 - **Manufacturing:** These industries convert raw materials or semi finished products into finished products, e.g., paper from bamboo, sugar from sugar cane. It has further-been divided into four parts.
 - **Analytical:** Different things are manufactured out of one thing e.g., petrol, diesel, gasoline out of crude oil.
 - **Processing:** Those industries wherein useful things are manufactured by making the raw material to pass through different production processes e.g., steel from iron ores.
 - **Synthetic:** Many raw materials are mixed to produce more useful product e.g., paints, cosmetics etc.
 - **Assembling:** The parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches etc.
 - **Construction Industry:** Such type of industries include construction of roads, bridges, buildings etc.
- 3. Tertiary or Service Industry:** Tertiary industry includes all those activities, which are concerned with providing support services to primary and secondary industries as well

as activities relating to trade. It includes banking, finance, insurance, communication, transportation etc.

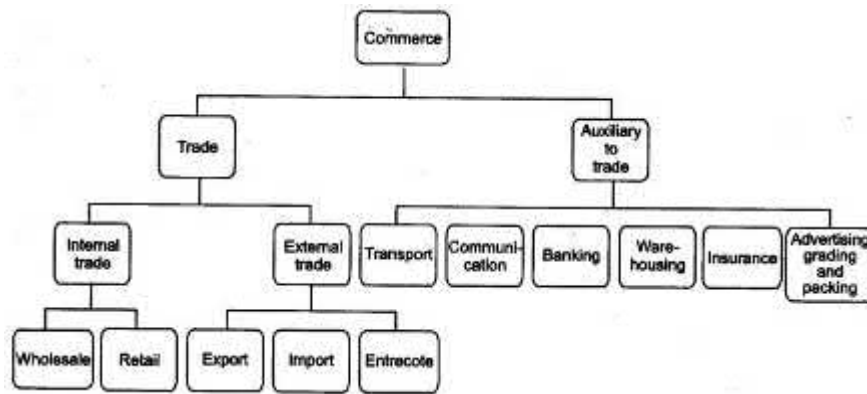
Question 4. Describe the activities relating to commerce.

Answer: Commerce refers to all , those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services. It includes trade and auxiliary to trade.

Commerce = Trade + Auxiliary to Trade

1. **Trade:** Trade refers to buying and selling of goods and services with the objective of earning profit. It is classified into two categories.
 - **Internal Trade:** It takes place within a country. Internal trade is classified into two categories retail trade and wholesale trade.
 - **Retail Trade:** It refers to buying of goods and services in relatively small quantities and selling them to the ultimate consumers.
 - (a) External Trade: It is done between two or more countries. External trade can be classified into three categories.
 - (b) Import Trade: If goods are purchased from another country, it is called import trade.
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 - (d) Entrecote Trade: Where goods are imported for export to other countries e.g., Indian firm may import some goods from America and export the same goods to Nepal.

2. **Auxiliaries to Trade:** All those activities which help in removing various hindrances which arise in connection with the production and distribution of goods are called auxiliaries to trade. An overview of these activities is given below.
 - **Transportation and Communication:** 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. Along with transport, communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.
 - **Banking and Finance:** Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.
 - **Insurance:** It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.
 - **Warehousing:** There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses.
 - **Advertising:** Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.



Question 5. Why does business need multiple objectives? Explain any five such objectives.

Answer: Since a business has to balance a number of needs and goals, it requires multiple, objectives.

Business is dependent on many people's satisfaction whose objectives for being involved in it are different and many times conflicting. Owners want profits, employees want good working conditions and remuneration, investors want good return and consumers want good quality product. Therefore, a business needs to have multiple objectives. Some of these objectives are given below:

- **Market standing:** Business can survive for a longer period only if it is able to capture a big share in the market and has market standing.
- **Innovation:** It means developing new products and their multiple uses. Old customers can be maintained and new can be attracted by innovation only.
- **Improving productivity:** Every business enterprise must aim at greater productivity by making optimum use of available resources.
- **Earning profit:** One of the objectives of business is to earn profits on the capital invested. Every business must earn a reasonable profit to survive and grow.
- **Optimum use of physical and financial resources:** Every business requires physical (plant, machine, office etc) and financial resources (money or funds) to produce goods and services; the business enterprise must aim to use them efficiently.
- **Workers performance and attitude:** Every business enterprise must aim at improving its workers performance and creating positive attitudes towards workers. It will boost the morale of the employees.
- **Social Responsibility:** A business is a part of society and so it must meet the expectations of the society. It can set goals in the areas of the environmental protection, supply of desired quality of products, employment generation etc.

Question 6. Explain the concept of business risk and its causes.

Answer: The term 'business risk' refers to possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes and preferences of consumers, strike, increased competition, change in Government policy etc. These are of two types: speculative and pure.

Causes of Business Risks:

1. **Natural causes:** The causes which are beyond human control e.g., flood, earthquake, heavy rains, famine etc.
2. **Human causes:** It includes carelessness or negligence of employees e.g., theft, strikes, riots, misappropriation of cash and products etc.
3. **Economic causes:** It is related to a chance of loss due to change in market condition e.g., fluctuations in demand and prices, competition, change in technology etc.
4. **Physical causes:** Mechanical defects or failures which may also lead to losses e.g., bursting of boiler or machine, may cause death or destruction.

5. **Other causes:** These include unforeseen events like political disturbances, fluctuation in exchange rates etc.

Question 7. What factors are important to be considered while starting a business? Explain.

Answer: Following factors are considered while starting a new business:

1. **Selecting the line of business:** The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.
2. **Scale or size of business:** After deciding the line of business the businessman must decide whether he/she wants to set up large scale or small scale business.
3. **Choice of form of business organization:** The next decision must be taken is to finalise the form of business i.e., to set up sale, proprietorship, partnership or joint stock company.
4. **Location of business enterprise:** The entrepreneur has to decide the place where the business will be located. Before taking this decision he/she must find out availability of raw materials, power, labour, banking, transportation etc.
5. **Financial requirement:** The businessman must analyse the amount of capital he/she might require to buy for fixed assets and for working assets). Proper financial planning must be done to determine the amount of funds needed.
6. **Physical facilities:** It includes machinery, equipment building etc. This decision depends upon the size, scale and type of business activities he/she wants to carry on.
7. **Plant layout:** Showing the physical arrangement of machines and equipment needed to manufacture a product.
8. **Competent and committed workforce:** The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perform various activities.
9. **Tax planning:** The entrepreneur must try to analyse the types of taxes, because there are a number of tax laws in the country which affect the functioning of business.
10. **Setting up the enterprise:** After analysing the above mentioned points carefully the entrepreneur can start the business which would mean mobilising various resources and completing legal formalities.

MORE QUESTIONS SOLVED

I. Multiple Choice Questions

Question 1. Which of the following is an economic activity?

- (a) Cooking food for self consumption (b) Cooking food for sale
(c) Cooking food for donation (d) All of the above

Question 2. Which of the following is not a business activity?

- (a) Production of goods (b) Trading of goods
(c) Storage of goods (d) Working in a hospital for wages

Question 3. Which of the following is not a feature of employment?

- (a) Fixed wages (b) Agreement between employer and employee
(c) Terms and conditions (d) Element of risk

Question 4. Choose the odd one out:

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

Question 5. Which of the following is not an insurable risk?

- (a) Risk of theft
(b) Risk of fire
(c) Risk of change in pattern of demand
(d) All of these

Question 6. Which of the following is a cause of business risk?

- (a) Natural causes (b) Political causes
 (c) Economic causes (d) All of the above

Question 7. Profits are necessary for:

- (a) Expansion (b) Survival
 (c) Innovation (d) All of the above

Question 8. Objectives of business do not include:

- (a) Higher returns to investors (b) Employee satisfaction
 (c) Maximum price-from consumers (d) Market standing.

Question 9. Which of the following is an example of genetic industry?

- (a) Mining (b) Lumbering
 (c) Animal husbandry (d) Hunting

Question 10. Which of the following is an example of secondary industry?

- (a) Genetic industry (b) Extractive industry
 (c) Synthetic industry (d) All of the above

Answers: 1. (b) 2. (d) 3. (d) 4. (c) 5. (c)

6. (d) 7. (d) 8. (c) 9. (c) 10. (c)

II. Short Answer Type Questions

Question 1. Differentiate between economic and non-economic activities.

Answer: All human beings have different types of needs. So, in order to full fill those needs, they have to perform some activities. Human activities are classified into economic and non-economic activities.

Basis	Economic	Non-economic
Meaning	Those activities whose aim is to earn money.	Those activities whose aim is not to earn money, and to create wealth, but to satisfy social, psychological and emotional needs.
Example	A teacher teaching in a school. People working in factories.	A teacher teaches his/her son/daughter at home. A housewife cooks food for her family.

Question.2. What are the functions of commerce?

Answer: The functions of commerce are as follows:

1. Removing the hindrance of person and that means lack of information to producer about consumer and to consumer about the producer. It is removed by advertising.
2. Transportation removes hindrance of place.
3. Storage and warehousing activities remove the hindrance of time.
4. Banking removes the hindrance of finance.
5. Insurance removes the hindrance of risk.
6. Advertising removes the hindrance of information.

Question 3. Distinguish between industry, trade and commerce.

Answer:

Basis	Industry	Commerce	Trade
Meaning	Production of goods and services.	Distribution of goods and services.	Buying and selling of goods and services.
Capital requirement	Large amount of capital invested.	Comparatively lesser invested capital.	Less capital depending on the nature of business.
Scope	It includes primary, secondary and services industries.	It includes trade and auxiliaries to trade.	It includes home and foreign trade.
Risk	It involves maximum risk.	Less risk as compared to industry.	Least risk involved.
Utility	Creates form utility.	Creates place and time utility.	Creates possession utility.

Question 4. Can profits be the sole objective of a business? Justify your answer by giving suitable reasons.

Answer: A layman may say that profits are the only objective with which a business is carried on but a good business man cannot keep profits as his only motive. A business organization is an economic unit which makes use of various factors of production. Capital is one of the factors of production. It pays interest in the form of profits. Ur wick has put it beautifully, "Earning of profits cannot be objective of business any more than eating is the objective of living." There must be other objectives of a business which are non-monetary but as important as monetary, like employee satisfaction, innovation, productivity, consumer satisfaction, etc. Following reasons can be given to justify our opinion that profits cannot be the sole objective of a business.

1. If we make profits to be only objective then interests of consumers, employees and society will be ignored.
2. Maximum profits in the short run, may result worse for long term interest of the company.
3. In present day scenario, when consumer awareness is increasing, labour laws are becoming stringent, social responsibilities of business is being highlighted, environment is being talked about, a business needs to set its objectives for satisfaction of consumers, employees, environmentalists, government etc.

Question 5. Explain political and legal causes of business risks.

Answer: The causes of business risk include:

1. Changes in government policies regarding foreign trade
2. Entry of multinational companies
3. Changes in laws affecting the business like licensing, taxation etc.
4. Changes in consumer laws and labour laws.

For example, an increase in tax rates may reduce profit margin of the business or an increase in minimum wages may increase labour cost for the business.

Question 6. Differentiate between insurable risks and non-insurable risks.

Answer: Differences between insurable risks and non-insurable risks is summarised below:

Basis	Insurable risks	Non-insurable risks
Meaning	Those risks which can be covered up by some type of insurance policy are called insurable risk.	Those risks which cannot be covered up by some type of insurance policy are called non-insurable risk.
Business Risks	Business risks are not insurable risks.	Business risks are non insurable risks.
Example	Risk of damage due to fire, accident, theft etc.	Risk of damage due to change in technology or change in government policy etc.

Question 7. What are the hindrances in the commerce? Which agencies are used to remove these hindrances?

Answer: Following are the hindrances in commerce:

- **Lack of Personal Contact:** This hindrance is removed by traders and middlemen.
- **Distance or Place:** This hindrance is removed by transportation.
- **Finance:** This hindrance is removed by banking.
- **Time or Storage:** This hindrance is removed by warehousing.
- **Risk:** This hindrance is removed by insurance companies.
- **Information:** This hindrance is removed by advertisement or communication.

III. Long Answer Type Questions

Question 1. Define Profession. Discuss its salient features.

Answer: When a person is engaged in an occupation which provides services on the basis of specialized knowledge and experience in their respective occupations, it is called profession.

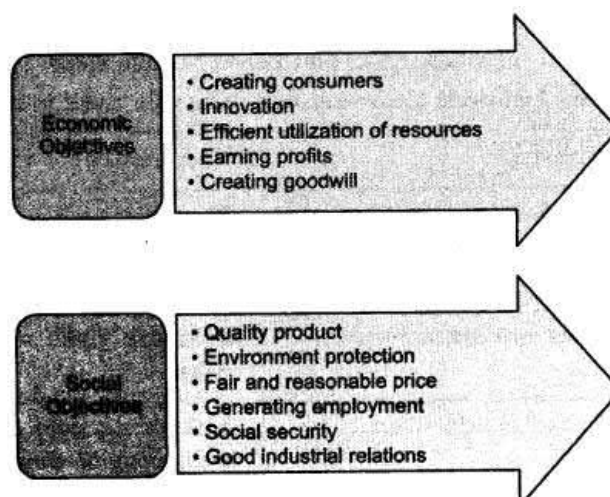
For example, Legal (Lawyer), Medical (Doctor), Accountancy (C.A).

An occupation can be called a profession if it has the following features:

1. Membership of a professional body and certificate of practice is required.
2. Personalised services of expert nature.
3. Professional qualification and training are required.
4. Professional fee is charged in lieu of services.
5. The limited capital for establishment is required.
6. The degree of risk is low.
7. Professional code of conduct is to be followed that has been given by the concerned authority.

Question 2. Explain the economic and social objectives of the business.

Answer:



1. Economic Objectives:

- **Creating consumers:** It means producing and distributing such useful goods and services which satisfy the consumers.
- **Innovation:** Innovation includes production of new products, replacing older products with latest and with new ones, improvement and modernisation in production methods so as to improve quality and/or reduce cost.
- **Effective utilisation of Resources:** A business tries to minimise and optimise its resource usage so as to minimise the cost and maximise the profits. By reducing cost and increasing profits, it ensures survival, growth, expansion and diversification.
- **Earning profits:** According to Dicksee, "Business is a form of activity pursued primarily with the objective of earning profit for the benefit of those on whose behalf activity is conducted.
- **Creating Goodwill:** When a business is able to make good profits and other economic activities, its goodwill amongst investors and competitors goes up.

2. Social Objectives

- **Quality product:** A business aims at providing quality product so that it has good demand in the market and consumers feel satisfied to consume it. Inferior goods do not satisfy consumers.
- **Environment protection:** Another social objective of a business is protecting the environment from pollution of any kind and to ensure that nonrenewable resources are not depleted.
- **Fair and reasonable price:** Prices must be fair and reasonable. Business aims at maximizing social satisfaction in right sense instead of maximizing profit.
- **Generating employment:** Business activities aim at providing employment opportunities for entrepreneurs and self-employed persons. Who provide some goods and services to businessmen?
- **Social security:** Businessmen follow certain social welfare programmes like group insurance, provident fund, pension fund, medical facilities of employees, etc. it enhances social security.
- **Good industrial relations:** Employees are an important part of an organization. Their problems and grievances must also be considered, while running a business. Business must aim at building sound industrial relations.

Question 3. Define commerce. Discuss its importance in the business world.

Answer: Commerce is related to the exchange and distribution of goods and services. It involves trade and activities which facilitate trade like transportation, banking, warehousing, and finance, etc. Commerce can be defined as the sum total of all such activities which are related to transfer of goods and services from manufacturer to consumer, i.e., from the place of production to the place of consumption.

Commerce is of great importance in the business world:

Removal of Obstacles or Hindrance of Trade:

- Removing the hindrance of person: It means lack of information to producer about consumer and to consumer about the producer. It is removed by advertising.
- Transportation removes the hindrance of place.
- Storage and warehousing activities remove the hindrance of time.
- Banking removes the hindrance of finance.
- Insurance removes the hindrance of risk.
- Advertising removes the hindrance of information.

These functions are divided into:

1. Service Functions

Those activities which help in removing hindrance of place, i.e. distance, knowledge, information and risk are included in service functions. These activities make use of the following means:

(i) Transportation (ii) Communication (iii) Insurance (iv) Advertisement (v) Entertainment services.

2. Financial Functions

It includes those activities which help in removing hindrance to finance. It includes:

- (i) Commercial banks
- (ii) Financial institutions like LIC, UTI, etc.
- (iii) Stock exchanges .
- (iv) Private financiers
- (v) Lease, hire purchase and installment supply agencies.

3. Marketing Functions

Those activities which help in the removal of the hindrances of exchange and person are included in this category.

It includes:

- (i) Channels of distribution (ii) Storing and warehousing facilities (iii) Packaging, grading and trade marks.

Question 4. "No business is risk free." Do you agree? Justify your answer, mentioning the nature and causes of business risk.

Answer: Yes, we agree. We cannot think of any business which is risk free. You start a general store—the simplest business. There is a risk of things you buy getting wasted due to changes in demand pattern. You start a garments shop, fashion may change making your stock a waste and so on. There is not even a single business where there is no risk. It will be clearer when we look at the nature and causes of risk.

1. Nature of Business Risks

- Business risks arise due to uncertainties: Natural calamities, change in demand and prices, change in technology, etc. are some of the examples of uncertainty which create risks.
- Risk is an essential part of every business: No business can avoid the risk. Risk can be minimized, but cannot be eliminated.
- Degree of risk depends mainly upon the nature and size of business: For small scale business it is less and for large scale business it is more.
- Profit is the reward for risk taking: An entrepreneur bears risks and in consideration, he gets rewarded in the form of profit. Greater the risk higher is the chance of profit.

2. Causes of Business Risk

- Natural causes: These are beyond human control, e.g., flood, earthquake, heavy rains, famine, etc.
- Human causes: It includes carelessness or negligence of employees, e.g. theft, strikes, riots, misappropriation of cash and goods, etc.
- Economic causes: These are related to a chance of loss due to changes in market condition, e.g., fluctuations in demand and prices, competition, change in technology etc.
- Physical causes: Mechanical defects or failures may also lead to losses, e.g. bursting of the boiler or machine may cause death or destruction.

- Legal and Political Causes: These causes of business risk include:
 - (a) Changes in government policies regarding foreign trade
 - (b) Entry of multinational companies
 - (c) Changes in laws affecting the business like to license, taxation, etc
 - (d) Changes in consumer laws and labour laws.

Think of any business. Risk in one way or the other must be applied to it. Hence, we may conclude that no business is risk free.

IV. Higher Order Thinking Skills (HOTS)

Question 1. "Earning of profits is the main objective of a business and other objectives are there to aid it only." Do you agree? Justify your answer.

Answer: It is incorrect to assume there can be only one objective of a business. Peter F. Drucker remarked, "To Manage a business is to balance a variety of needs and goals. And this requires multiple objectives." Thus, the management of a business must set objectives, in every 'key area' that influences its survival and growth. Peter F. Drucker has suggested eight key areas where objectives must be set. These are discussed below:

1. **Market standing:** It refers to the market position of a business in relation to its competitors, e.g. position of 'Liberty' against that of 'Bata'. A dynamic enterprise must aim at increasing its market standing by offering better products at competitive prices and winning permanent customers.
2. **Innovation:** It means the introduction of new products, new uses of existing products, or new methods of production. Innovations are essential for a business enterprise to grow in the competitive world. For example, LG introduced door cooling technology in refrigerators.
3. **Productivity:** It is the ratio between output and inputs in the production process. Productivity is often used as an indicator of the efficiency of an organization. More productivity will lead to reduced cost of production.
4. **Employee satisfaction:** An organization must also aim at moulding the attitudes of employees so that they may contribute better towards organizational goals. It is also important to provide such working conditions to employees that they feel satisfied in working with and for the organization.
5. **Resources—Physical and financial:** A business enterprise requires many physical and financial resources. A business must aim at procuring these resources.
6. **Managerial performance:** A team is entrusted with the tasks of planning, organizing, staffing, directing and controlling which is called management. Management needs to set targets in the areas of planning, organizing, staffing, directing and controlling and also overall targets for the development of the organization.
7. **Social responsibility:** A business is a part of society. There are some responsibilities of business towards society like generating employment, using eco-friendly methods of production, etc. I must fulfill these responsibilities.
8. **Profitability:** Consider all the above objectives. They are either not possible to be attained without profits like consumer wants good quality. So for market standing we need to provide good quality product which can be provided only when we have enough profits. Similarly, employees want good monetary and non-monetary benefits which are dependent on profits. Some other objectives contribute towards higher profits like innovation and managerial performance. Therefore, we can conclude that the main aim of a business is to earn profits and other aims are either an outcome of the profits or profits are not possible without these.

Question 2. "Risk is the element which makes the business different from other economic activities." Do you agree? Justify your answer.

Answer: All economic activities are divided into three categories.

1. Employment
2. Profession
3. Business.

1. Employment is a contract between employer and employee whereby the employee agrees to work on pre-fixed terms and conditions for an employer for a fixed wage or salary. There is no risk associated with employment as wages or salary is pre-fixed.
2. Profession includes those activities, which are requiring special knowledge and skill to be applied by individuals in their occupation to earn fees. A professional also takes a minimal risk of whether he will get clients or not.
3. Business refers to those economic activities, which are connected with production, purchase and sale of goods or supply of services with the main object of earning profit. Since there is no pre-determined contract, return which is profit, is not fixed. There may be profits in millions or there may be a heavy loss.
Therefore, business as an economic activity is different from other economic activities mainly due to profit. However, there are other differences as well. For example, a business man does not need specific qualifications as required in a profession. A businessman has relative more freedom than a person who is employed or is a professional.

V. Value Based Questions

Question 1. "Economic and non-economic activities don't substitute, but complementary to each other." Do you agree? Explain.

Answer: Yes, we agree. Economic activities are undertaken with an economic motive, i.e., to earn money, but non-economic activities are undertaken without any economic purpose. For example, when our parents go to office or workplace, it is an economic activity, but when a mother cooks food for their children, we do some donations, we get pocket money, we take a bath, and these are non economic activities. But these activities cannot take place unless and until we have money to support them.

No one can work without getting a sound sleep, while sleeping is a non-economic activity. Similarly, bathing is a non-economic activity, but it is compulsory to be healthy. Without being healthy getting involved in economic activity is not possible. Therefore, economic and non-economic activities don't substitute, but complementary to each other.

Question 2. If you need , to start doing an economic activity to earn livelihood for your family, which one would you like and why?

Answer: Economic activities can be grouped under business, profession and employment. All the three have their own merits and demerits. Therefore, one will decide according to the conditions, he/she is facing.

1. If one has enough funds to invest and he/she is a person who has an ability to take initiative and decision making then he/she will prefer business.
2. If one has a professional degree and minimum funds to start their own practice, he/she will prefer to be a professional.
3. If one has no such degree and no funds to start any venture of their own but some qualification to suit the requirement of a job, he/she will prefer employment.

Question 3. If one starts a business, which objective will be of utmost importance to you and why?

Answer: If one starts their own business, our social objectives will be of utmost importance to

me because:

1. It will create employment opportunities in the economy. He/she will make use of such methods which are desirable from society point of view.
2. It will help us to provide good quality product at reasonable prices to customers.
3. It will keep environment pollution free.
4. When we will concentrate on these objectives, it will satisfy one consumers and employees.

Consumer satisfaction will lead to improvement in these goodwill and market standing. Employee satisfaction will lead to increase in productivity. These two factors will increase profits in the long run automatically.