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## Business Studies 11th (NCERT)

### Chapter: Business, Trade and Commerce

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#### Short Answer Questions

1. List any five major commercial cities of ancient India?

Ans. Five major commercial cities of ancient India are as follows

- Patliputra (known as Patna today): Major centre for export of stones.
- Peshawar: Exporting wool and importing horses
- Taxila: Important land route between India and central Asia. It's a city of financial and commercial banks.
- Indraprastha: Commercial junction on the royal road where most routes leading to the east, west, south and north converged.
- Varanasi: City of textile industry famous for gold silk cloth and sandalwood workmanship.

2. What is Hundi?

Ans. Hundi is an instrument of exchange, which was prominent in the subcontinent, involved a contract which –

- warrant the payment of money, the promise or order which is unconditional
- capable of exchange through transfer by valid negotiation.

3. List the major exports and imports in ancient India.

Ans. Major exports:- Spices, wheat, sugar, indigo, sesame oil, cotton, parrot, live animals and animal products – hides, skin, fur, horns, tortois shell and precious stones like, pearls, sapphires, quartz, and turquoise etc.

Major imports:- Chinese silk, flax and linen, wine, gold, silver, tin, lead, rubies, glass and amber ect.

4. What are the different types of Hundi in use by the traders in ancient times?

- Ans. (a) Dhani-jog (Darshini) (b) Sah-jog (Darshini)  
(c) Firman-jog (Darshini) (d) Dekhan- har (Darshini)  
(e) Dhani-jog (Muddati) (f) Firman-jog (Muddati)  
(g) Jokhmi (Muddati)

5. What do you understand by maritime trade?

Ans. Maritime trade is the kind of trade that involves the transport of goods through the sea, using ships. Maritime transport is the shipment of goods (cargo) and people by sea and other waterways. Port operations are a necessary tool to enable maritime trade between trading partners.

6. State the different types of economics activities.

Ans. Different types of economics activities are as follows

- Business: It includes exchange of goods and services on regular basis for profit motive
- Profession: Rendering personalised expert services for fees. Special knowledge and skills are required
- Employment: It refers to the occupation in which people (employees) work for others (employer) and get remuneration (wages or salary) in return

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**7.** Why is business considered as economic activity?

Ans. Business is considered as economic activity because business is related to earning profit on regular basis in form of money. Money related activities are called economic activities therefore business is an economic activity.

**8.** State the meaning of business.

Ans. It is an occupation or activity in which people regularly engage in the activities related to production, purchase and sale of goods and services for profit motive.

**9.** How would you classify business activities?

Ans. Business activities are classified into two broad categories i.e

- (i) Industry: Economic activities which are connected with conversion of resources into useful goods.
- (ii) Commerce: Economic activities which are necessary for facilitating the exchange of goods and services.

**10.** What are the various types of industries?

Ans. Following are the different types of industries

- (i) Primary Industries:
  - (a) Extractive industries
  - (b) Genetic industries
- (ii) Secondary Industries:
  - (a) Manufacturing
  - (b) Construction
- (iii) Tertiary Industries: Provide support services to primary and secondary industries as well as activities relating to trade.

**11.** Explain any two business activities which are auxiliaries to trade.

Ans. Two business activities which are auxiliaries to trade are as follows

- (a) Transport: The production of goods generally takes place at remote location. For instance, tea is mainly produced in Assam, but it is required for consumption in different parts of the country. The hindrance of place is eliminated by transportation (road, rail or coastal shipping).
- (b) Warehousing: A warehouse is an establishment for the storage of goods. Warehousing means storing goods in the warehouse. The basic function of warehousing is to store large quantities of goods and made available as and when required. Thus, it prevents wide fluctuations in prices. In other words, it stabilises the prices by regulating the supply of goods. Warehousing enables the consumer to consume perishable goods, if they so like, throughout the year by maintaining a regular supply of goods like fruits, eggs and vegetables etc. with the use of cold storage.

**12.** What is the role of profit in business?

Ans. Role of profit in business can easily be summarise by the following points.

- 1. Source of income: It is the most important source of income and provides livelihood for the businessman. Everyone has to satisfy his needs of food, shelter & clothing and hence no one is expected to undertake business activities without this expectation.
- 2. Efficient working: Profit is required for efficient and smooth functioning of the business. Profit is the blood of the business. It is considered as a barometer for judging the performance of the business.
- 3. Reward for risk bearing: Risk is always associated with any business. A person who invests money in the business has to bear the risk also. In the eventuality of loss due to any risk, the businessman doesn't stop the business. It is the profit element that motivates him to carry on with business even in the case of losses.
- 4. Growth and expansion: Profit is a source of finance for expansion and diversification of business activities, A part of the profits can be retained for increasing the volume of the

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business. Retention of profit is always considered the best way for carrying out business activities. Profit helps in growth and expansion of business.

**13.** What is business risk? What is its nature?

Ans. In every business risk is always there. Profit is the reward of risk. Business risk means the possibilities/ probabilities of insufficient profits or even losses. Profit can be decline due to

- Decrease in demand of the product because of change in taste of customers that will result in lesser sale and thereby low profits
- Change in government policies
- Strikes and lock-outs
- Increase in competition

Nature of business risk:

- Risk arise due to uncertainties
- Degree of risk depends upon nature, size and scale of business
- Profit is the reward of risk

**Long Answer Questions**

**1.** Discuss the development of indigenous banking system in Indian subcontinent.

Ans. Commercial cities like Harappa and Mohenjodaro were found in third millennium B.C. The civilization had grown up and established economic and commercial relations with Mesopotamia and traded in precious stones, silver, gold, pearls, beads, sea shell etc. With the growth of commercial life metal began to supplement all other mode of exchange. Metallic money accelerated trade and commerce. Introduction of instruments like Hundi and Chitti made the business transactions easy through which money passed hand to hand quickly.

Indigenous banking system played a prominent role in lending money and financing domestic and foreign trade with currency and letter of credit. With the development of banking, people began to deposit precious metals with lending individuals functioning as bankers or Seths, and money became an instrument for supplying the manufacturers with a means of producing more goods. Emergence of credit transactions and availability of loans and advances boost up economic and commercial activities. In Indian subcontinent export exceeded import resulting favourable balance of trade which leads to increase in production of goods and indigenous banking system benefitted the manufacturer, traders and merchants with additional capital funds for expansion and development of business and commerce. With the increasing activity of agriculture, industry and commerce development bank started to provide finance for short, medium and long term.

**2.** Define business. Describe its important Characteristics.

Ans. Business refer to all those activities which are related to earning profit on regular basis. It includes production, purchase, sale and distribution of goods or rendering services for a price to satisfy the needs of other people.

Characteristics of the business are as follows.

- (a) **An economic activity:** Because of the following reasons business is considered as an economic activity
  - (i) It is undertaken for earning money.
  - (ii) It includes production, purchase, sale and distribution of goods or rendering services for a price for mutual profit
  - (iii) It uses resources like land, labour, capital and machinery
- (b) **Dealing in goods and services:** It includes dealing in goods and services on regular basis. One single transaction is not be considered as business even profit is earned i.e., sale of old mobile phone at profit is not a business.
- (c) **Exchange of goods and services:-** In business, there is always sale or exchange of goods and services for a value between seller and buyer for example teacher, teaching his/ her

son at home is not a business but providing tuitions in a coaching center and getting money is a business.

- (d) **Production or procurement of goods and services:** - Business firms or enterprises either manufactures goods or acquires them from producers for resale. Services include insurance, banking, transportation etc.
- (e) **Profit earning :-** One of the important feature of the business is to earn money by way of profit. A business cannot survive without profit. Profit is essential to survive and growth moreover profit is the scale for measurement of the success and growth of the business.
- (f) **Uncertainty of returns:-** Every businessman invest money (capital) into the business to run the activities of the business for earning profits. But it is uncertain to what amount of profit will be earned within a specific period of time. Possibilities of losses are always there in the business despite the best efforts put in.
- (g) **Element of risk:-** Business has no control over external factors like change in government policies, strikes and lock-outs, increase in competition, change in customer taste and preference, fire and accidents. These elements of risk cannot be eliminate by the business however can be minimize to some extent through insurance.

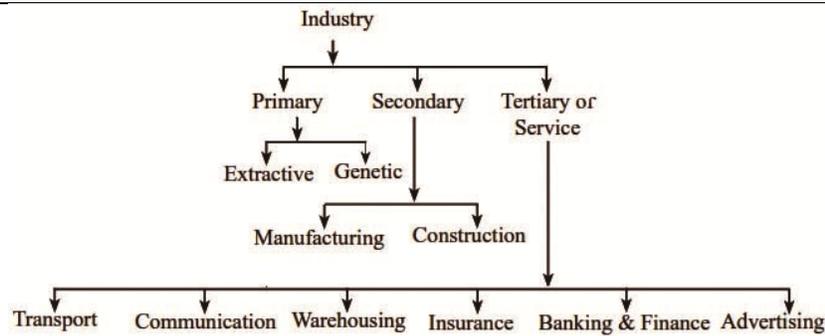
**3. Compare business with profession and employment.**

Ans.

<b>Basis</b>	<b>Business</b>	<b>Profession</b>	<b>Employment</b>
Mode of establishment	Entrepreneur's decision and other legal formalities are necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
Nature of work	Providing goods and services to the public	Rendering of personalised expert services	Performing work as per service contract or rules of service
Qualification	No minimum qualification is necessary	Expertise in a specific field is must	Qualification as desired by the employer
Reward or return	Profit earned	Professional fee	Salary or wages
Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment as compared to business.	No capital required
Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no risk
Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behaviour laid down by the employer are to be followed.

**4. Define industry. Explain various types of industries giving examples.**

Ans. Industry is concerned with the production or processing of goods and materials. The term industry is used for the activities in which mechanical appliances and technical skills are involved or activities which are connected with conversion of resources into useful goods.



**Meaning and Types of Industries:** Industries refers to economic activities which are connected with conversion of resources into useful goods. Production is a generic term embracing the entire chain of human efforts leading to the creation of products that helps in satisfying human wants.

### Types of Industries

1. **Primary Industries:** These industries are connected with:

- I. The extraction and production of natural resources,
- II. Reproduction and development of living organisms, plants, etc.

#### Primary industries may be of following Types

- (i) **Extractive industries:** These industries are engaged in the extraction of useful materials from beneath the surface of the earth and sea. These industries draw out various products from natural resources such as earth, soil, water, etc. Farming, mining, fishing, hunting, oil extraction, extracting of gases such as oxygen, helium nitrogen for air, etc. are the examples of extractive industries.
- (ii) **Genetic Industries:** These industries are engaged in the reproduction or multiplication of certain species of plants and animals. Nursery, Poultry farming, Animal husbandry, Pisciculture (fish farming) or growing fish in ponds, orchards to grow different kind of fruits, commercial kernels, agriculture or farming for growing crops, Dairy farming, etc. are the example of genetic industries.

Extractive industries are different from genetic industries. In extractive industries man cannot add to the wealth which he withdraws from the earth, sea, or air. But in genetic industries, man not only adds to the growth but also initiates the reproduction of natural goods.

**Secondary Industries:** These industries process materials which have already been obtained at the primary stage. Example: growing jute is primary industry. Manufacturing bags from jute is secondary industry.

- (i) **Manufacturing industries:** These industries convert raw materials or semi-finished products into finished products. These industries changes the shape and form of materials produced by genetic and extractive industries. Engineering, cement, sugar, textiles, etc. are main examples of manufacturing industries.
  - A. **Analytical industry:** In an analytical manufacturing industry, a basic raw material is broken into several useful materials. Example: an oil refinery, crude oil is analysed and separated into several products such as petrol, diesel, kerosene, and lubricating oil.
  - B. **Synthetical industry:** Two or more materials are combined or mixed together to manufacture a new product. Gypsum, coal, etc. are mixed to produce cement.
  - C. **Processing industries:** Involves many stages for manufacturing finished products. In cotton textile industry, cotton is passed through the spinning, weaving, dyeing, bleaching, and printing processes to convert it into cloth.

- D. **Assembling industry:** Various components or parts are brought together to produce a finished products. Automobiles and computer are the major example of assembling industries.
- (ii) **Construction Industries:** These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.

**Tertiary Industries:** The activities which provides support services to primary and secondary industries as well as to trade are known as tertiary industries. Commercial services such as transport, warehousing, banking, insurance, advertisement, etc. are included in it.

Types	Examples of Business Activities
Transportation	Land, air and water
Banking	Acceptance of deposits and lending of money
Insurance	Insuring the risks attached to person or property
Warehousing	Preserving goods for the time gap between production/purchase and sale
Advertising	Providing information to consumers about the production through radio, newspapers, magazines, hoardings etc.

5. Describe the activities relating to commerce.

Ans. **Commerce includes two types of activities**

1. **Trade:** It refers to buying and selling of goods and services with the objective of earning profit.
  2. **Auxiliaries to trade:** Activities which are meant for assisting trade are known as auxiliaries to trade. Example: Transport, communication, banking, insurance, warehousing, advertising, etc.
1. **Trade:** Trade means buying and selling of goods. It involves the exchange of commodities for money. It is the means by which people sell those goods which they do not need. Traders serve as the link between producers and consumers. Trade is the nucleus of commerce. It can be broadly divided into two categories.
    - (a) **Internal trade:** Internal trade is also known as domestic trade or inland trade or home trade. It means buying or selling within the geographical boundaries of one country. Both buyer and seller belong to same country.
      - (i) **Wholesale trade:** It implies buying and selling of goods in large quantities. It serves the connecting link between the producer and the retailer. A wholesaler specializes in a limited variety of goods. He keeps large stock of goods. Therefore, requires huge amount of capital.
      - (ii) **Retail trade:** It refers to buying of goods and services in relatively small quantities; and selling them to the ultimate consumers. Traders dealing in retail trade are called retailers.
    - (b) **External trade:** External trade is also known as foreign trade or international trade. It refers to buying and selling of goods and services between two or more countries.
      - (i) **Import trade:** If goods and services are purchased from another country, it is called import trade.
      - (ii) **Export trade:** If goods and services are sold to other countries, it is called export trade.
      - (iii) **Entrepot Trade:** Where goods are imported for export to other countries, it is called entrepot trade.
  2. **Auxiliaries to trade:** Activities which assists or support trade are known as auxiliaries to trade. They are integral part of commerce as they remove various hindrances in the production and distribution of goods.

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**Auxiliaries to trade or services are described below:**

- (i) **Transportation:** Transport (roads, rail or water) facilitates movement of
  - Raw materials to the place of production and
  - The finished goods to the place of consumption.

It makes for speed and efficiency in exchange. It overcomes the barriers of distance and creates place utility.
- (ii) **Warehousing:** Warehousing refers to the holding and preservation of goods until they are finally consumed. Nowadays, goods are produced in anticipation of demand. Therefore, it is necessary to store the goods until they are sold. Proper storage arrangements must be made in order to make such goods available. Rice, wheat are seasonal products but are consumed throughout the year. So warehousing removes the hindrance of time and thereby creates time utility.
- (iii) **Banking and finance:** Business activities cannot be undertaken unless funds are available for acquiring assets and meeting the day-to-day expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance.
- (iv) **Insurance:** Business involves various types of risks. Risk against fire, theft, etc. Materials and goods held in stock or in transit are subject to the risk of loss or damage. Vehicles on roads are also at risk.
- (v) **Advertising:** Advertising is one of the most important methods of promoting the sale of products, particularly, consumers goods like TV, cars, soaps, etc. The main purpose of advertising is to create and sustain demand.
- (vi) **Packaging:** Packaging means designing appropriate containers, wrappers and other types of packages for goods and putting goods in wrappers, containers, etc. Packaging helps protect the goods from damage during transport and warehousing. It removes the hindrances of risk by keeping goods safe and free from spoilage. Trade and transport of goods have become easier and safer due to improvement in the art and methods of packaging.

**6. Explain any five objectives of business.**

Ans. Objectives of Business are as follows:

1. **Market standing:** Market standing refers to position of an enterprise in relation to its competitors. Objective of most companies is to be number one in industry.
2. **Innovation:** Innovation is the introduction of new ideas or methods. There are two kinds of innovation in every business, i.e.
  - (i) innovation in product or services; and
  - (ii) innovation in various skills and activities needed to supply products and services

No business enterprise can flourish in a competitive world without innovation. Therefore, innovation becomes an important objective.
3. **Productivity:** Productivity is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency. In order to ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources. It can be explained by example, suppose a company uses raw material 20 kgs and converted into finished goods of 10 kgs then the productivity of the company is 50%.
4. **Physical and financial resources:** All business requires physical resources, like plants, machines, offices, etc., and financial resources, i.e. funds to be able to produce and supply goods and services to customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.
5. **Earning profits:** One of the main objectives of business is to earn profits on the capital employed. Every business must earn a reasonable profit in order to survive and grow in future.

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7. Explain the concept of business risk and its causes.

Ans. Concept of Business Risks

- (a) **Business risks arise due to uncertainties:** Uncertainty refers to the lack of knowledge about what is going to happen in the future. There are several kinds of uncertainties caused by human or natural uncertainties. Example: strikes, lockouts, accidents, theft, bad debt which leads to losses. Flood, famine, earthquake, hailstorm etc. Many of the above mentioned risk can be insured now leading to more stability in the business but risk like lockouts, strikes cannot be insured.
- (b) **Risk is an essential part of every business:** Risk is an inevitable feature of business. A business cannot be run without some elements of risk in it. Risk is inherent in business as business plans for future and future is always uncertain.
- (c) **Degree of risk depends mainly upon the nature and size of business:** Nature of business (i.e., type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business.
- (d) **Profit is the reward for risk taking:** An entrepreneur is willing to take risks in the hope of getting profit. Where there is risk, there is also the possibility of gain. Generally, heavy risks results in higher profits. Risk and returns always goes hand in hand.

#### Types of Business Risks

- (1) **Speculative risks:** These risks involve both the possibility of gain as well as the possibility of loss. They arise due to fluctuations in demand and supply, changes in price, etc.
- (2) **Pure risks:** Pure risks involve only the possibility of loss or no loss. The chances of fire, theft or strike are examples of pure risk. There occurrence may result in loss, non-occurrence means no loss.

#### Causes of business risk

- (a) **Natural cause:** These are the natural calamities like earthquake, flood, heavy rain, lightning and famine. Humans have no control over them.
- (b) **Human causes:** These are in the hands of humans and result of unexpected events like dishonesty, strike, lock-out, negligence and inefficiency of management.
- (c) **Economic causes:** These includes price, competitors, demand of goods, bad debts, high interest rates, unavailability of finance and heavy taxes and duties.
- (d) **Political causes:** These includes fall of government, change in government policy and war etc.
- (e) **Other causes:** Accidents, power failure, gas leakage etc.

8. What factors are to be considered while starting a business? Explain.

Ans. (i) **Selection of line of business:** The factors which influence the nature and type of business are-

- Greater profits
- Customer Requirements
- Technical knowledge
- Interest of the Entrepreneur

(ii) **Size of the firm:** Scale of the operation is an important factor. If the business person is confident that the demand is likely to be good over time and possess the required capital/knowledge, he/she may start a large scale business. If the market is unstable and risks are high, starting a small business will be better.

(iii) **Choice of form of ownership:** The factor which influence this are line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business and transferability of interests. Example-Sole proprietorship, partnership or a joint stock company.

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- (iv) **Competent and committed workforce:** A competent workforce efficiency to convert resources into products. Skilled and unskilled labour, managerial staff need to be identified and the employees need to be trained or motivated.
- (v) **Physical Facilities:** Availability of facilities like machines, equipment etc. is also a very important factor. This will depend upon-
- nature and size of business
  - availability of funds
  - process of production
- (vi) **Plant layout:** Layout mean the arrangement of physical facilities like machines and equipment needed to produce a product or service.
- (vii) **Financing:** Capital is required for starting and continuity business. Capital is required for:-
- Fixed assets- land, machinery, etc.
  - Current assets- raw materials, debts etc.
  - Day to day expenses
- Financial planning should be done to decide:
- Capital requirement
  - Source of capital
  - utilisation of capital
- (viii) **Tax Planning:** There are a number of tax laws in the country that influence almost every aspect of modern business. We need to consider tax liability and its effect on the business.
- (ix) **Location:** Any mistakes can result in high production costs, inconvenience in inputs or getting the product to the consumer. Factors that affect location are :-
- Availability of raw material and labour
  - Power supply
  - Services like banking, warehousing etc.
- (x) **Launching the enterprise:** This consists of many stages-
- Mobilising various resources
  - fulfilling legal formation
  - starting production
  - initiating the marketing campaign

