

ST. MARY'S CO-ED SCHOOL, HARDA
Business Studies
Class-11
Chapter-1 Nature and Purpose of Business

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.

1. **Tertiary or Service Industry:** It includes those services which help business to move smoothly e.g. transport, bank, insurance, storage and advertising.
2. **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.

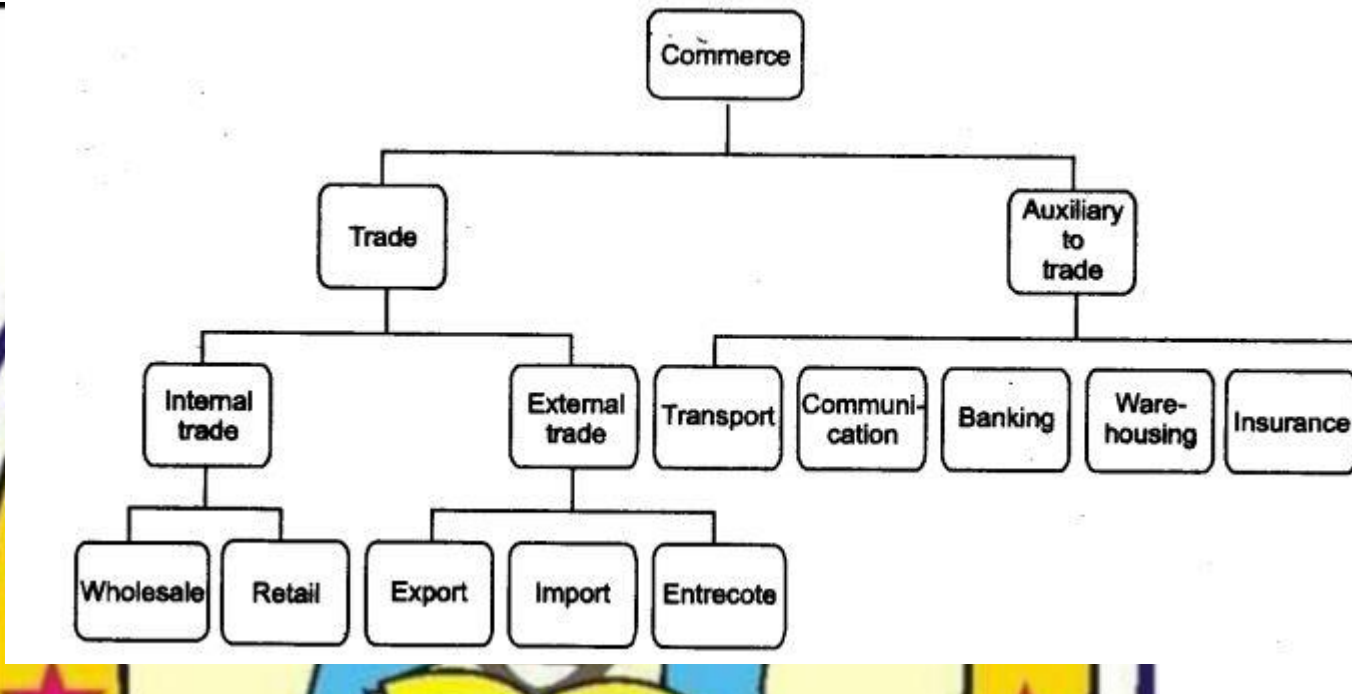
Question 4. Describe the activities relating to commerce.

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.
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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.

