

Chapter 1

Business, Trade and Commerce

Short answer

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

Answer:

Five major commercial cities of ancient India are as follows-

1. Pataliputra: Known as Patna today. It was not only a commercial town but also a major center for the export of stones.
2. Peshawar: It was an important exporting center for wool and the import of horses. It had a huge share in commercial transactions between India, China and Rome in the first century A.D.
3. Taxila: It served as a major center on the important land route between India and Central Asia. It was also a city of financial and commercial banks.
4. Indraprastha: It was the commercial junction on the royal road where most routes leading to the east, west, south and north converged.
5. Mathura: It was an emporium of trade and people here depend on commerce. Many routes from South India touched Mathura and Broach.

Q. 2 What is Hundi?

Answer:

Hundi was used for carrying out transactions in which money passed from hand to hand. It was an instrument of exchange that was prominent in the subcontinent. It involved a contract which involved a warrant the payment of money and it was capable of change through transfer by valid negotiation.

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



Answer:

Exports items of India are -spices, wheat, sugar, indigo, opium, sesame oil, cotton, parrot, live animals and animal products such as hides, skin, furs, horns, tortoise shells, pearls, sapphires, quartz, crystal, lapis, lazuli, granites, turquoise and copper etc.

Imports items consisted of horses, animal products, Chinese silk, flax and linen, wine, gold, silver, tin, copper, lead, rubies, coral, glass, amber, etc.

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

Answer:

The different types of Hundi used by traders in ancient times are as follows-

- a. Dhani-jog Darshani: Its function was Payable to any person and there is no liability over who received payment.
- b. Sah-jog Darshani: Its function was Payable to a specific person, someone 'respectable'. Liability over who received payment.
- c. Firman-jog Darshani: Here Hundi was made payable to order.
- d. Dekhan-har Darshani: Its function was to Payable to the presenter or bearer.
- e. Dhani-jog Muddati: It was Payable to any person and there was no liability over who received payment, but payment over a fixed term.
- f. Firman-jog Muddati: Here Hundi was made payable to order following a fixed term

Q. 5 What do you understand by maritime trade?

Answer:



Maritime trade was another important branch of the global trade network. It was a kind of trade where goods are transported through the sea. It involved a certain risk and consisted of rules and regulation.

Important maritime trade areas are:

- Malabar Coast, on which Muziris is situated, has a long history of international maritime trade from the era of the Roman Empire. Pepper was particularly valued in the Roman Empire and was known as 'Black Gold'
- Calicut was such a bustling emporium that it was even visited by Chinese ships to acquire items, like frankincense (essential oil) and myrrh (fragrant resin used in perfumes, medicines) from the Middle East, as well as, pepper, diamonds, pearls and cotton from India.
- On the Coromandel Coast, Pulicat was a major port in the 17th century. Textiles were the principal export from Pulicat to Southeast Asia.

Q. 6 State the different types of economic activities.

Answer:

The different types of economic activities are-

- i. Business: It refers to those economic activities that are concerned with production, sale and supply of goods with an aim of profit.
- ii. Profession: It refers to those activities that require special knowledge and skill. People engaged in activities are known as professionals.
- iii. Employment: It refers to those occupations where people get remunerated or reward in return. People engaged in those occupations are known as employees.

Q. 7 Why is business considered as an economic activity?

Answer:



Economic activities are those by which we can earn our livelihood, whereas, non-economic activities are performed out of love, sympathy, sentiment, patriotism, etc.

Economic activities may be further divided into three categories, namely business, profession and employment. Business is considered to be an economic activity because it is undertaken to earn money or livelihood and not out any emotion. It may be mentioned here that this activity can be undertaken either on a small and individual level, on a large scale in a more formal and organized level.

Q. 8 State the meaning of business.

Answer:

The term business is derived from the word 'busy'. Business refers to an occupation in which people regularly engaged in activities related to purchase, production and/or sale of goods and services to earn profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

Q. 9 How would you classify business activities?

Answer: Various business activities may be classified into two broad categories industry and commerce.

- The industry refers to economic activities, which are connected with the conversion of resources into useful goods. Industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods, as well as, breeding of animals.
- Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods are termed as trade. Auxiliaries to trade and include transport, banking, insurance, communication, advertisement, packaging and



warehousing. Commerce provides the necessary link between producers and consumers. It embraces all those activities, which are necessary for maintaining a free flow of goods and services.

Q. 10 What are the various types of industries?

Answer:

Industries may be divided into three broad categories namely primary, secondary and tertiary.

- Primary industries: These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc.
- Secondary industries: These are concerned with using materials, which have already been extracted at the primary state. These industries process such materials to produce goods for final consumption or further processing by other industrial units
- Tertiary industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities.

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

Answer:

i. Banking and Finance: Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance.

ii. Advertising is one of the most important methods of promoting the sale of products, particularly, consumer goods, like electronics and automobile goods, soaps, detergents, etc. Thus, for promoting sales, information about the goods and services advertisement is required so that it reach potential buyers.



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

Answer:

Profitability refers to profit with capital investment. Every business must earn a reasonable profit which is so important for its survival and growth. Every business is an attempt to reap more than what has been invested, and profit is the excess of revenue over cost. The role of profit in business is an important factor for its growth and expansion. It is important as it is a source of income for business persons and the expansion of business

Q. 13 What is a business risk? What is its nature?

Answer:

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers.

Nature of business risks are:

- (i) Business risks arise due to uncertainties:
- (ii) Risk is an essential part of every business:
- (iii) Degree of risk depends mainly upon the nature and size of business:
- (iv) Profit is the reward for risk-taking.

Long answer

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

Answer:

The country was often referred to as ‘Swaranbhumi’ and ‘Swarndweep’ in the writings of many travellers, such as Megasthenes, Faxian (Fa Hien), Xuanzang etc. The pre-colonial period in Indian history was an age of prosperity. 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 manufacturers with a means of producing more goods. Documents such as Hundi and Chitti were in use for carrying out transactions in which money passed from hand to hand. In ancient India, Intermediaries played a prominent role in the promotion of trade. They provided considerable financial security to the manufacturers by assuming responsibility for the risks involved, especially in foreign trade. The institution of Jagat Seths also developed and exercised great influence during the Mughal period and the days of the East India Company. The emergence of credit transactions and the availability of loans and advances enhanced commercial operations. The Indian subcontinent enjoyed the fruits of a favorable balance of trade, where exports exceeded imports with large margins and the indigenous banking system benefitted the manufacturers, traders and merchants with additional capital funds for expansion and development. Between the 1st and the 7th centuries CE, India is estimated to have the largest economy of the ancient and medieval world, controlling about one third and one-fourth of the world’s wealth. Transport by land and water was popular in ancient times. Trade was maintained by both land and sea. Maritime trade was another important branch of the global trade network. The Europeans embark great voyage of discovery. Even the guild merchants also played an important role and developed many trade centers such as Taxila, Pataliputra, and Mathura etc.

Q. 2 Define business. Describe its important characteristics.



Answer:

The term business is derived from the word 'busy'. Business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services to earn profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

Characteristics of Business

- (i) An economic activity: Business is considered to be an economic activity because it is undertaken to earn money or livelihood and not out of love, affection, sympathy or any other emotion. It may be mentioned here that this activity can be undertaken either on a small and individual level, on a large scale in a more formal and organized level.
- (ii) Production or procurement of goods and services: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods or acquires them from producers, sold to consumers. Goods may consist of consumable items of daily use, such as sugar, ghee, pen, notebook, etc. Services may include facilities offered to consumers, business firms and organizations in the form of transportation, banking, electricity, etc.
- (iii) Sale or exchange of goods and services: Directly or indirectly, business involves transfer or exchange of goods and services for the value. If goods are produced not for sale but personal consumption, it cannot be called a business activity. For Example-Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business.
- (iv) Goods and services are deal regularly: Business involves dealings in goods or services regularly. For example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business



activity. But if he/she sells radio sets regularly either through a shop or from his/her residence, it will be regarded as a business activity.

(v) Profit earning: One of the main purposes of business is to earn income by way of profit. No business can survive for long without profit. That is why; businessmen make all possible efforts to maximize profits, by increasing the volume of sales or reducing costs.

(vi) Uncertainty of return: Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period. Every business invests money (capital) to run its activities to earn a profit. But it is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, despite the best efforts put into the business.

(vii) The element of risk: Risk is the uncertainty associated with exposure to loss. It is caused by some unfavorable or undesirable event. Risks are related with factors, like changes in consumer taste and fashion, changes in the method of production, strike or lockout at the workplace, increased competition in the market, fire, theft, accidents, natural calamities, etc.

Q. 3 Compare business with profession and employment.

Answer:

S. No.	Differences	Business	Profession	Employment
--------	-------------	----------	------------	------------



1.	Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and a certificate of practice	Appointment Letter and Service agreement
2.	Nature of work	Provision of Goods and services to the public	Rendering of personalized, expect services	Performing Work As per Service Contract or Rules Of service
3.	Qualification	No minimum qualification is necessary	Qualification, expertise and training in specific field as prescribed by the professional the body is a must	Qualification and training as prescribed by employer



4.	Reward or return	Profit is earned	Professional fee	Salary or wages
5.	Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital required
6.	Risk	Profit are uncertain and irregular; the risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
7.	Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
8.	Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behavior laid down by the employer is to be followed



The difference between profession and employment is discussed below-

Q. 4 Define Industry. Explain various types of industries giving examples.

Answer:

Industry refers to economic activities, which are connected with the conversion of resources into useful goods. The industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods, as well as, breeding of animals. For example, the cotton textile industry refers to all manufacturing units producing textile goods from cotton.

I. Primary industries: These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc. These are divided as follows.

(a) Extractive industries: These industries extract or draw products from natural sources. Extractive industries supply some basic raw materials that are mostly products of the geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.

(b) Genetic industries: These industries are engaged in breeding plants and animals for their use in further reproduction. Seeds and nursery companies are typical examples of genetic industries.

II. Secondary industries: These are concerned with using materials, which have already been extracted at the primary state. These industries process such materials to produce goods for final consumption or further processing by other industrial units. For example, mining of iron ore is a



primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry. Secondary industries may be further divided as follows:

(a) Manufacturing industries: These industries are engaged in producing goods through the processing of raw materials and, thus, creating form utilities. Manufacturing industries may be further divided into four categories based on the method of operation for production.

- Analytical industry
- Synthetically industry
- Assembling industry

(b) 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 of the construction industries.

III. Tertiary industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities. This category included transport, banking, insurance, warehousing, communication, packaging and advertising.

Q. 5 Describe the activities relating to commerce.

Answer:

The activities relating to commerce are as follows-

(i) Transport and Communication: Production of goods generally takes place in particular locations and these goods are required for consumption in different parts of the country. Transport facilitates the movement of raw material, to the place of production and the finished products from factories to the place of consumption. Along with the transport facility, there is also a need for communication facilities so that



producers, traders and consumers may exchange information with one another.

(ii) Banking and Finance: Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance. Banks also undertake the collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders.

(iii) Insurance: Business involves various types of risks. Factory building, machinery, furniture, etc., must be protected against fire, theft and other risks. Material and goods held in stock or transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance protects in all such cases.

(iv) Warehousing: Goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. A special arrangement must be made for the storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed

(v) Advertising: Advertising is one of the most important methods of promoting the sale of products, particularly, consumer goods, like electronics and automobile goods, soaps, detergents, etc. Most of these goods are manufactured and supplied in the market by numerous firms. It is impossible for producers and traders to contact every customer for which promoting sales, information about the goods and services are required to reach potential buyers. Advertising helps in providing information about available goods and services and inducing customers to buy particular items.



Q. 6 Explain any five objectives of a business.

Answer:

Five objectives of a business are as follows-

- (i) Market standing: Market standing refers to the position of an enterprise with its competitors. A business enterprise must aim at offering competitive products to its customers and serving them to their satisfaction.
- (ii) Innovation: Innovation is the introduction of new ideas or methods in the way something is done or made. No business enterprise can flourish in a competitive world without innovation. To ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources.
- (iv) Resources: Business requires physical resources, like plants, machines, offices, etc., and financial resources, i.e., funds to produce and supply goods and services to its customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.
- (v) Earning profits: Profitability refers to profit with capital investment. Every business must earn a reasonable profit which is so important for its survival and growth.

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

Answer:

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers. Lower demand results in long sales and profits. Business enterprises constantly face two types of risk i.e. speculative and pure. Speculative risks involve both the possibility of gain, as well as, the



possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers. Favorable market conditions are likely to result in gains, whereas, unfavorable ones may result in losses. Pure risks involve only the possibility of loss or no loss. The chances of fire, theft or strike are examples of pure risks.

Cause of Business

- (i) Natural causes: Human beings have little control over natural calamities, like flood, earthquake, lightning, heavy rains, famine, etc. property and income in the business.
- (ii) Human causes: Human causes include such unexpected events, like carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.
- (iii) Economic causes: These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems, like rising in an interest rate for borrowing, levy of higher taxes, etc, also come under these types of causes as they result in a higher unexpected cost of operation or business.
- (iv) Other related causes: These are unforeseen events, like political disturbances, mechanical failures, such as the bursting of a boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

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

Answer:

- (i) Selection of line business: The first thing to be decided by an entrepreneur is the nature and type of business to Methods of Dealing with, For instance, the enterprise may decide not to enter into too risky



transaction, take preventive measures, like firefighting devices, to reduce risk and take insurance policy to transfer risk to insurance company etc.

(ii) Size of the firm: Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favor a large size, whereas, others tend to restrict the scale of operation. It depends on the uncertain market conditions and risks so people would choose the better one.

(iii) Choice of a form of ownership: Concerning ownership, the business organization may take the form of a sole proprietorship, partnership, or a joint-stock company. Each form has its own merits and demerits. The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, the liability of owner's division of profit, legal formalities, continuity of business, and transferability of interest and so on.

(iv) Location of business enterprise: An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in a high cost of production, inconvenience in getting, right kind of production inputs or serving the customers in the best possible way.

(v) Financing the proposition: Financing is concerned with providing the necessary capital for business. Capital is required for investment in fixed assets, like land, building, machinery and equipment and in current assets, like raw materials, books, debts, stock of finished goods, etc. Capital is also required for meeting day-to-day expenses.

(vi) Physical facilities: Availability of physical facilities, including machines and equipment, building and supportive services is an important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of the business, availability of funds and the process of production.



(vii) Planning: Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities. The layout is an important part of planning that means the physical arrangement of machines and equipment needed to manufacture a product.

(viii) Competent and committed worked force: Every enterprise needs a competent and committed workforce to perform various activities so that physical and financial resources are converted into desired outputs. The plan should be made to identify the requirement of skilled and unskilled workers and managerial staff.

(ix) Tax planning: Tax planning has become necessary these days because there are several tax laws in the country and they influence almost every aspect of the functioning of modern business.

(x) Launching the enterprise: After the decisions relating to the above-mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilizing various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.