

Class XI BUSINESS STUDIES
CHAPTER -1 BUSINESS TRADE AND COMMERCE
IMPORTANT QUESTIONS

MULTIPLE CHOICE QUESTIONS (1 MARKS)

Question 1

Give an example of activity which is economic in one side and noneconomic on other side.

OR

State different type of economic activities

OR

Name the economic activity in which specialized knowledge is required.

Answer

Example of economic activity is Cricket Academy and non-economic on the other side is coaching his own son for cricket

Or

Different type of economic activities are Business, Profession and Employment

Or

Profession is the economic activity in which specialized knowledge is required

Question 2

A person sells his domestic furniture at a profit, will it be considered a business? Explain the characteristic of business which is being stressed upon.

OR

Mr Sonu sold his washing machine & refrigerator on Quikr as he was shifting base to London. Is this a business activity?

Answer

No, It is not considered as business. Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business.



Question 3

Why is the insurance known as a tertiary industry?

OR

Which industries provide support services to other industries?

Answer

Insurance is support service to the primary and secondary services.

Tertiary industries are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities.

Hence insurance is known as Tertiary industry

Question 4

What type of industry is fishing?

OR

What type of industry are poultry farms and plant nurseries?

OR

Which one of the broad categories of industries covers oil refinery and sugar mills?

Answer

Fishing-Primary Industry

Poultry Farm and Plant nurseries-Primary Industry

Oil Refinery and sugar mills- Secondary Industry

Question 5

Categories the following into business, profession and employment.

(i) A farmer

(ii) An advocate

(iii) A clerk

(iv) A hawker selling toys for children

(v) A doctor

(vi) A person working in scooter repair shop on roadside



Answer

- (i) A Farmer-Business
- (ii) An advocate- Profession
- (iii) A clerk- Employment
- (iv) A hawker selling toys for children-Business
- (v) A doctor- Profession
- (vi) A person working in scooter repair shop on roadside- Employment

Question 6

ABC Ltd. Inventing a new machinery to curb its production problem. Which objective it is trying to achieve?

Answer

Company is trying to achieve Innovation objective. Innovation can be defined as a distinctive manner of thinking that brings about more efficient solutions to modern issues

Question 7

What reward does the businessman get for bearing risks?

Answer

Businessman undertakes risk in business activities because of the reward of earning profit

Question 8

Name the occupation in which people work for others and get remunerated in return.

- a. Business
- b. Profession
- c. Employment
- d. None of the above

Answer

Employment.

Employment refers to the condition of having paid work



VERY SHORT AND SHORT ANSWER QUESTIONS (3 OR 4 MARKS)

Question 1

What are the causes for the possibility of inadequate profits due to uncertainties or unexpected events?

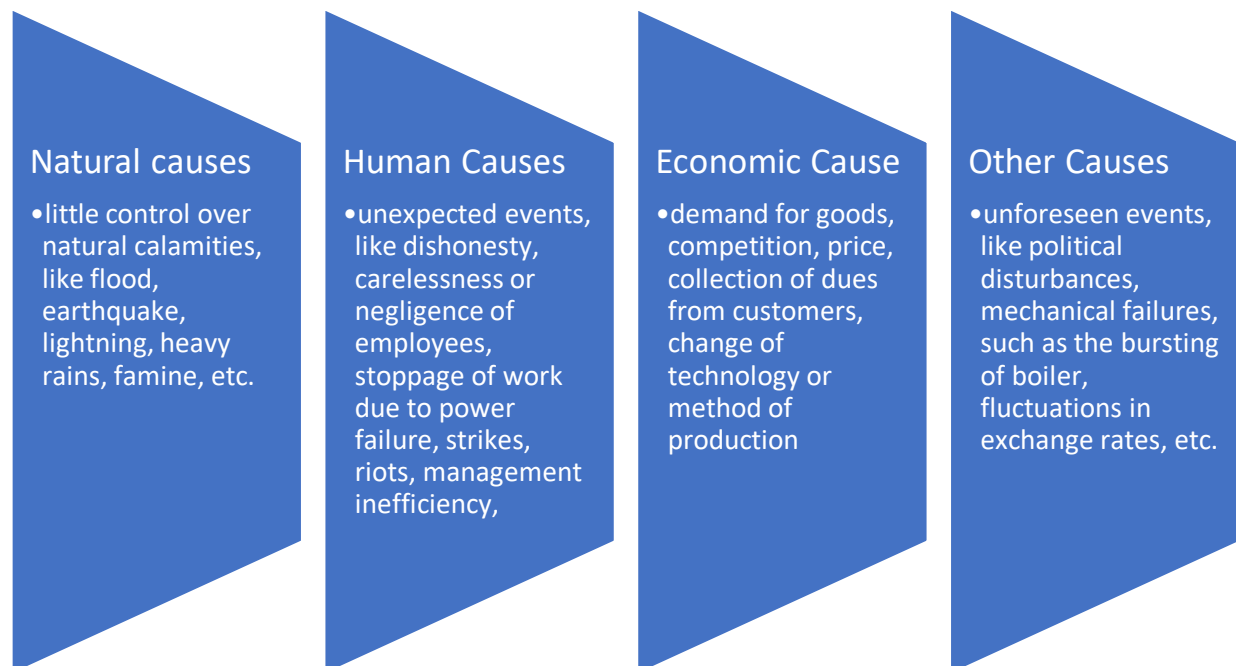
OR

No business is risk free in the light of this statement, explain the concept of business risk and it's any three causes.

Answer

Business Risks refers to possibility of inadequate profits or even losses due to uncertainties or unexpected events.

The causes of Business Risks are:



Question 2

Compare between Business, profession & Employment on the basis of the following:

- Capital Investment**
- Risk**
- Transfer of interest**



Answer

Basic	Business	Profession	Employment
Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	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 or little risk
Transfer of interest	Transfer possible with some formalities	Not possible	Not possible

Question 3

What is business risk?

Answer

Business Risk refers to possibility of inadequate profits or even losses due to uncertainties or unexpected events.

Nature of Business Risk

- It arises due to uncertainties and unexpected events
- It is essential part of business
- Degree of risk taken depends on the nature and size of business
- Profit is reward for risk taking

Question 4

Explain any four objectives of business

Answer

Objectives of Business are as follows:

1. Earning Profits: Business has to earn reasonable profit so as to sustain its growth and survive in the market
2. Market Standing: Business should have a better position in the market in relation to its competitors
3. Innovation: Business should come up with new ideas, inventions and new methods for sustainable growth and survival
4. Productivity: Productivity is ascertained by comparing the value of output with the value of input. Business must work efficiently and effectively so as to enhance its productivity.



Question 5

Define commerce, why is it of great importance in modern life?

Answer

According to James Stephenson, 'Commerce is an organized system for exchange of goods between members of the industrial world'

Importance of Commerce are as follows:

1. Commerce tries to satisfy increasing human wants
2. Commerce links producers and consumers
3. It creates employment opportunities
4. It helps in expansion of aids to trade
5. It helps in the growth of industrial development
6. It increases the standard of living
7. It encourages International trade
8. It helps during emergencies like flood, earthquake etc by making available essential requirement and relief to affected areas

Question 6

Distinguish between primary & secondary industry Give examples.

Answer

Primary	Secondary
<ul style="list-style-type: none">• Activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc• Divided as follows:<ul style="list-style-type: none">• Extractive Industries: extract or draw products from natural sources• Genetic Industries: engaged in breeding plants and animals for their use in further reproduction• Examples: Fishing, Mining etc	<ul style="list-style-type: none">• These industries process materials to produce goods for final consumption or for further processing by other industrial units.• Divided as follows<ul style="list-style-type: none">• Manufacturing Industries: engaged in producing goods through processing of raw materials and, thus, creating form utilities• Construction Industries: involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals• Examples: Sugar mill, Oil Refinery



Question 7

“Business is an institution organized to provide goods and services under the incentive of private gain.” Discuss.

OR

Define business. Explain the characteristics of business (any three)

Answer

According to B.O.Wheeler, ‘Business is an institution organized and operated to provide goods and services under the incentive of private gain’

Business refers to occupation in which people engage in activities of purchase, production or sale of goods and services with a view to earn profit



Characteristics of Business are:

1. Sale or exchange of goods and services

- Business involves transfer or exchange of goods and services for value.
- Cooking food at home for the family is not business but cooking food and selling it to others in a restaurant is business.

2. Dealings in goods and services on a regular basis

- Business involves dealings in goods or services on a regular basis.



- One single transaction of sale or purchase, therefore, does not constitute business

3. Profit earning

- No business can survive for long without profit.
- That is why, businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

Question 8

Write difference among industry, commerce and trade on any five basis.

Answer

Basis	Trade	Commerce	Industry
Meaning	Trade is that branch of commerce which deals with exchange or transfer of goods and services	Commerce comprises of all those activities which are concerned with the distribution of goods and services so they may reach the consumers with a minimum of inconvenience	Industry is concerned with raising producing processing or fabrication of goods and services
Origin	prevalence of barter system	continuous development of trade and industries	continuous development of trade and industries
Involves	Purchase and Sale	Trade and Aids to Trade	Trade and Aids to Trade
Capital requirement	Small	Little	Large
Risk	Moderate	Low	High

Question 9 “Commerce comprises of trade and all the services that make trade possible.” Discuss.

Answer

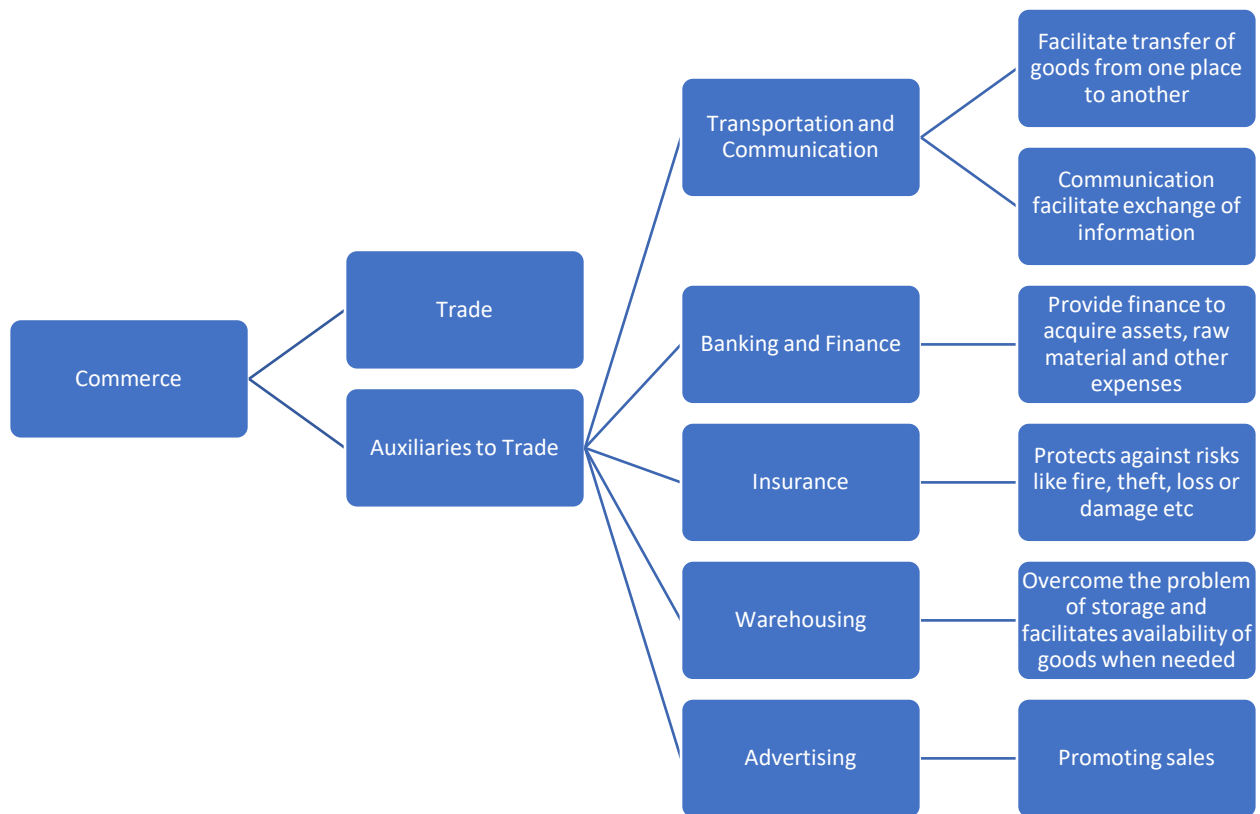
Commerce is the fundamental action that takes place in every transaction involving money and/or trade

Commerce is classified as Trade and Auxiliaries to Trade

Trade means buying and selling of goods and services

Auxiliaries to trade means service which facilitates or assist trade





LONG ANSWER QUESTIONS (5 OR 6 MARKS)

Question 1

What provides the necessary link between producers & consumers with all those activities which are necessary for maintaining a free flow of goods & services? Discuss all those activities.

OR

In business activities, there are some activities that are involved in the removal of hindrances in process of exchange i.e. from the producer to the consumer Identify them.

Also classify the activities which help in removing the following hindrances:

- (i) Hindrance of place
- (ii) Hindrance of risk
- (iii) Hindrance of time
- (iv) Hindrance of finance
- (v) Hindrance of information

OR

Tea is mainly produced in Assam, while cotton in Gujrat & Maharastra but they are required for consumption in different parts of the country. How can this hindrance of place be removed? Also under what business activity will it be categorised.

OR

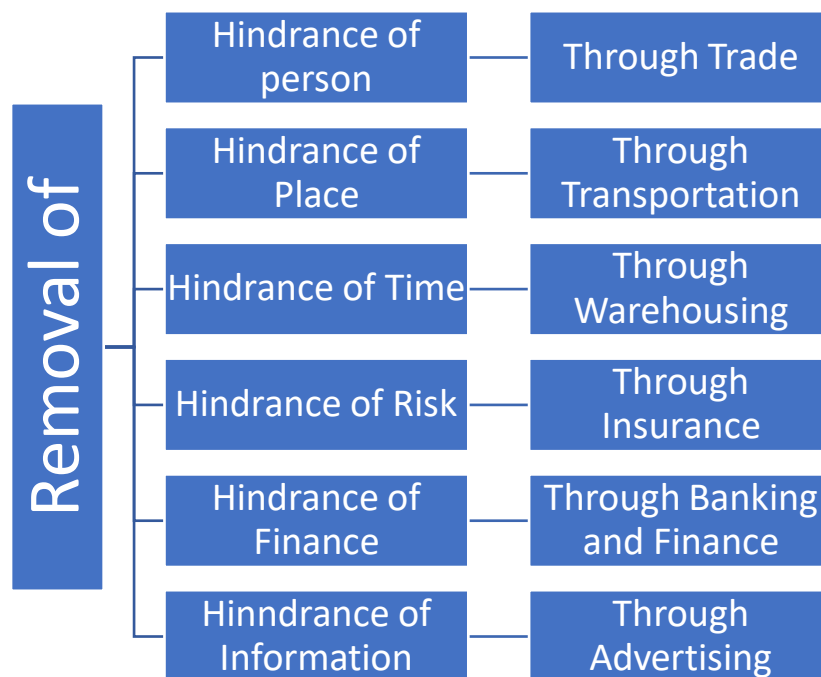
Commerce is the sum total of activities that remove hindrances in the free flow of goods from producers to consumers. Explain.

OR

How do trader remove the hindrance of person?

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. The functions of commerce are as follows.



1. Removing the hindrance of person by marking goods available to consumers from the producers. through trade.

2. Transportation removes hindrance of place by moving goods from the place of production to the markets for sale.

3. Storage and warehousing activities remove the hindrance of time by facilitating holding of stock of goods to be sold as and when required.



4. Insurance removes hindrance of risk of loss or damage of goods due to theft, fire, accidents etc.
5. Banking removes hindrance of finance-by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.
6. Advertising removes hindrance of information-by informing consumers about the goods and services available in the market.

Question 2

Starters of a new business are largely responsible for the success of the business they undertake various functions. Discuss the basic factors which influence the starter functions.

OR

Explain any six factors that are important to be considered while starting a business.

Answer

Selection of line business	decide nature and type of business according to the possibility of earning profit
Size of the firm	demand for the proposed product is likely to be good over time and he/she can arrange the necessary capital for business, he/she will start the operation at a large scale. If the market conditions are uncertain and risks are high, a small size business would be better choice.
Choice of form of ownership	The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business,
Location of business enterprise	Availability of raw materials and labour; power supply and services, like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.
Financing the proposition	providing the necessary capital for starting, as well as, for continuing the proposed business.
Physical facilities	machines and equipment, building and supportive services is an important factor to be considered at the start of the business.
Plant layout	, the entrepreneur should draw a layout plan showing the arrangement of these facilities.
Competent and committed worked force	Every enterprise needs competent and committed workforce to perform various activities so that physical and financial resources are converted into desired outputs
Tax planning	number of tax laws in the country and they influence almost every aspect of the functioning of modern business
Launching the enterprise	, the entrepreneur can go ahead with actual launching of the enterprise

Question 3

Profit maximization cannot be the sole objective of a business. Explain.

OR



“Profit is not an objective but a requirement of business.” Do you agree with the statement? Support your answers with reasons

OR

“Overemphasis on objective to earn profit may exploit the business”. What does a business should do to enable itself to bring the balance?

Answer

Business is established for the purpose of earning profit. Profit plays a very important role in business for survival, growth, expansion but profit maximization is not the sole objective of business

Business is an integral part of society. It makes use of resources of society. It earns profit by selling its products or services to members of society. So it becomes obligatory on the part of the businessman to do something for the society.

The important social objective of business are as follows:

1. **Quality goods and services at Fair Price:** The first social objective of business is to provide better quality product at reasonable price and in proper quantity on continuous basis to consumers
2. **Avoidance of Anti-Social and Unfair trade practices:** Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.
3. **Generation of Employment:** Now a days, employment is the biggest problem of society. Business should provide employment to more and more people living in the country.
4. **Employee Welfare:** Employees are a valuable asset and they make significant contributions towards the success of business. Another social objective of business, therefore, is to ensure welfare of employees by providing good working conditions, fair wages and facilities such as housing, medical and entertainment etc. such welfare facilities help to improve physical and mental health of employees.
5. **Community service:** Business should contribute something to the society where it is established and operated Library, dispensary, educational institutions etc. are certain contributions which a business can make and help in the development of community.

Question 4

‘Kodak Pics’ is an advertisement agency initiated by Rahul, Sushmita & Prema. They have called a meeting to discuss the below given points

- (i) Increase the profit margin by 20% in July.**
- (ii) Aiming bigger share in the market.**
- (ii) Making use of better lenses & improved techniques.**
- (iv) Making best use of cameramen, finance etc. employed by the business**



(v) Improve efficiency in functioning of business.

(a) Which aspects of business objectives are being referred to here?

(b) Also develop each point to be discussed in the meeting by classifying the objective.

Answer

a) Economic objectives of the business are emphasized in the above points

b) **Increase the profit margin by 20% in July:** Profit earning objective is emphasized. Profitability refers to profit in relation to capital investment. Profit earning is important for business survival and growth

Aiming bigger share in the market: Market standing objective is emphasized. Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and serving them to their satisfaction.

Making use of better lenses & improved techniques: Innovation objective is emphasized. Innovation is the introduction of new ideas or methods in the way something is done or made. 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

Making best use of cameramen, finance etc. employed by the business: Physical and Financial resources objective is emphasized. Any 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 its customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently

Improve efficiency in functioning of business: Productivity objective is emphasized. 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

Question 5

JawaharLal prepares 'Ghujiya' for customers during Holi season every year. He prepared more 'Ghujiya' than he could sell this year. He employed women and children also and paid them less salary manufacturing on the packages. This way he generated profit for himself.

(a) Do you think he is fulfilling all the objectives of business?

(b) If not which aspects of this objective are not being fulfilled?

(c) Write any two values lacking in JawaharLal.

Answer

a) No, he is not fulfilling all the objectives of the business. Business is concentrating on the objective of profit earning. Business is an integral part of society. It makes use of resources of society. It earns profit



by selling its products or services to members of society. So it becomes obligatory on the part of the businessman to do something for the society.

b) Social objectives of business are not fulfilled. Business has two aspect of objectives. One is economic which means profit earning, productivity, innovation, market standing etc. Other aspect is social objective which consist of Quality goods, avoid unfair trade practices, employee welfare, community service, generation of employment etc.

c) Two values lacking in Jawaharlal are as follows:

1. Ethical practices: Jawarharlal has appointed women and children for manufacturing to generate profit. This behavior is unethical as Child labour is unethical practice in India. Business should not indulge in unfair, unethical trade practices. Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice

2. Employee welfare: Employees are a valuable asset and they make significant contributions towards the success of business. Objective of business is to ensure welfare of employees by providing good working conditions, fair wages and facilities such as housing, medical and entertainment etc. such welfare facilities help to improve physical and mental health of employees. Jawaharlal paid less wages to manufacture ghujia. Fair wages are not paid so, employee welfare objective is not met.

Question 6

Different situations in different business are being elaborated below:

(i)Raghnath Gorkha had a match stick factory in Nepal which got distructed by the recent earthquake.

(ii)Mr Arya, a senior manager in a telecom company shared confidential information about the company with a competitor which led to huge losses for the company.

(iii)Vodafone Co. was charged with evasion of tax and asked to pay fine in cross which would lead to heavy losses for the company.

(iv) Type writers becoming redundant is being referred to in all the above cases?

(a)Which characteristic of business is being referred to in all the above cases

(b)How can you classify the different cases based on this characteristic?

[Hint: Business Risks - Causes]

Answer

a) Risk bearing characteristic of business is referred to in all above cases. All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, change in consumer taste etc. Every business invests money with the objective of earning profit but the amount of profit earned may vary also there is always a possibility of losses.



b) (i) Raghunath Gorkha had a match stick factory in Nepal which got destroyed by the recent earthquake:

It is classified as Natural Causes of Business risks. Human beings have little control over natural calamities like flood, earthquake, famine etc. They result in heavy losses of life, property & income in business.

(ii) Mr Arya, a senior manager in a telecom company shared confidential information about the company with a competitor which led to huge losses for the company:

It is classified as Human Causes of Business Risks. Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, strikes, riots, management inefficiency etc. Here he shared confidential information with competitor which led to huge losses

(iii) Vodafone Co. was charged with evasion of tax and asked to pay fine in court which would lead to heavy losses for the company:

It is classified as Human Causes of Business Risks. It includes unexpected events, like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency etc which leads to heavy losses to company.

(iv) Typewriters becoming redundant:

It is classified as Economic causes of business risks. They are related to a change of loss due to change in market condition e.g., fluctuations in demand and prices, competition, change in technology etc. Typewriter became redundant is change in technology which leads to loss in company.

Question 7

Dr. Sanvi is an orthopedic surgeon in AIIMS Hospital and Dr Maruti, her friend is a Pediatrician who has set his own clinic. Dr Maruti's wife, Ms. Aditi operates her Cosmetic store. Compare & differentiate the nature of tasks undertaken by them.

Answer

Dr. Sanvi, an orthopedic surgeon in AIIMS Hospital is on employment whereas Dr Maruti, pediatrician having own clinic is following his profession and his wife Aditi owns Cosmetic store which is a business.

Difference in the nature of tasks undertaken by them are given below:

Basic	Business	Profession	Employment
Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
Nature of work	Provision of 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	Qualifications, expertise and training in specific field as prescribed by the professional body is a must	Qualification and training as prescribed 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	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 or little 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
Example	Shop, factory	Legal, medical profession, Chartered accountancy	Jobs in banks, insurance companies, government departments

Question 8

Zainab, Shelly & Ravina are friends. They have just completed a fashion designing course. They wish to start a business together. They have Rs.10,00,000 savings put together and are planning to take a bank loan of additional _ 10 lakhs. They have found a prime location in KarolBagh where they can set their boutique. They decide that they will initially not take very big orders. Based on this information, quote the lines associated with factors affecting the decision to start a business and classify them.

Answer

1. Selection of line of Business: They selected to start a boutique in Karol Bagh
2. Size of Firm : They wanted to start business on small scale. Therefore the risk factor is less and capital requirement can also be met.
3. Choice of form of ownership: The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business etc. Here choice of form of ownership is partnership. They have to decide about the liability, division of profit. They need to sign partnership deed
4. Location: Choice of location should be done based on the availability of raw material and labour, transportation and communication. Karol Bagh is the prime location as well as wholesale market. So, the choice of place is correct.
5. Finance: As they are bringing Rs 10 lac into business and taking an equal amount of loan to run the business.



6. Physical Facilities: They need to buy machine, equipment to start the business.
 7. Layout: They need to draw a layout plan showing the arrangement of the facilities, so, as to have efficient use of resources
 8. Competent Workforce: They need to have competent and committed workforce to perform the activities so that desired output is achieved.
 9. Tax Planning: There are number of Tax laws which need to be taken into consideration before starting a business.
 10. Start up: Now after taken into consideration the above point and checking the feasibility of the project, they can start with the launch of the boutique.
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