

NCERT SOLUTIONS

CLASS - 11th



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Class : 11th

Subject : Business Studies

Chapter : 1

Chapter Name : Foundation of business

Q1 List any five major commercial cities of ancient India ?

Answer. The major commercial cities of ancient India were :

Pataliputra - It is known as Patna presently. It was a commercial as well as a major centre for export of stones.

Peshawar - It was an important centre for the export of wool and the import of horses in ancient times.

Taxila - It served as a link and a major centre on the important land route between India and Central Asia. It was also a city of commercial and financial banks.

Indraprastha - It was the commercial junction on the royal road where most of the routes leading to east, west, south and north converged.

Ujjain - The major exports were Agate, carnelian, muslin and mallow cloth. It had trade relations through the land route with Taxila and Peshawar.

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Q2 What is Hundi?

Answer. Hundi is an instrument of exchange, and was prominent in the subcontinent. It involved a contract which was a warrant for the payment of money, the promise or order which is unconditional and capable of change through transfer by valid negotiations.

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Q3 List the major exports and imports in ancient India?

Answer. The major exports in ancient India are as follows - spices, wheat, sugar, indigo, opium, sesame oil, cotton, parrot, live animals and animal products—hides, skin, furs, horns, tortoise shells, pearls, turquoise and copper etc.

The major imports in ancient India are as follows -

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

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Q4 What were the different types of Hundi in use by traders in ancient times ?

Answer. The different types of Hundis used by traders in ancient times were :

Dhani-jog (Darshani) - It was payable to any person - no liability over who received payment.

Sah-jog (Darshani) - It was payable to a specific person, someone 'respectable'. It was a liability over who received payment.

Firman-jog (Darshani) - This Hundi was made payable to order.

Dekhan-har (Darshani) - This Hundi was payable to the presenter or bearer.

Dhani-jog (Muddati) - It was payable to any person -no liability over who received payment, but payment over a fixed term.

Firman-jog (Muddati) - This Hundi is made payable to order following a fixed term.

Jokhmi (Muddati) - This Hundi is drawn against dispatched goods. If goods are lost in transit, the drawer or holder bears the costs, and the Drawee carries no liability.

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Q5 What do you understand by maritime trade?

Answer. The maritime trade is a trade through sea routes. It involves the transportation of goods from one place to another via sea routes in ships and vessels.

The maritime routes linked the east and the west by sea and were used to trade goods, especially spices and was also known as 'spice route'.

Important maritime routes of India in ancient times were Malabar Coast, Calicut, Coromandel Coast etc.

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Q6 State the different types of economic activities?

Answer. Economic activities are divided into three categories, namely business, profession and employment.

Business - Business refers to the trading of goods and services on a regular basis. The main motive of these activities is to earn profits as income.

Profession - Profession refers to the occupation which involves applying the skills and in depth knowledge of a particular field. It may include services offered by professionals like the doctor, engineer etc.

Employment - Employment refers to the activity in which the person is hired by an organisation to work on a regular basis in return of wages or salary paid to him against the services.

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Q7 Why is business considered as economic activity?

Answer. Business is considered to be an economic activity because it is carried out with the motive of earning money or profits or livelihood. This is not done out of love, affection, sympathy or any other emotion. A business can be carried out on small as well as large scale.

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Q8 State the meaning of business.

Answer. The term 'Business' is derived from the word 'busy'. However, business refers to an occupation in which people regularly engage in activities related to purchase, production or sale of goods and services with a motive of earning profits and to satisfy the needs of the people.

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Q9 How would you classify business activities?

Answer. Business activities are classified into two categories namely Industry and commerce.

Industry : Industry refers to those economic activities, which are connected with the conversion of resources into useful goods. This activity is undertaken with the help of relevant technical skills and mechanical appliances.

For example, cotton textile industry refers to all manufacturing units producing textile goods from cotton.

Commerce : Commerce includes two types of activities, (i) trade and (ii) auxiliaries to trade. Trade is the buying and selling of goods. But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called services or auxiliaries to trade. These include transportation, banking, insurance, communication, advertising, etc.

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Q10 What are the various types of industries?

Answer. Industries are broadly divided into three categories namely primary, secondary and tertiary.

(i) Primary industries : It includes 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 further divided into two namely Extractive and Genetic industries.

(ii) Secondary industries: These are concerned with using materials, which have already been extracted at the primary state. For example, mining of iron ore is a primary industry, but manufacturing of steel by way of further processing of raw iron is a secondary industry. These are further divided into Manufacturing industries and 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 services. It includes transport, banking, insurance, warehousing, communication, packaging and advertising.

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Q11 Explain any two business activities which are 'auxiliaries to trade' ?

Answer. Transport and Communication : Production of goods are confined to certain places and in particular locations. For instance, tea is mainly produced in Assam, just is produced in West Bengal and so on. Though the goods are produced here but may not necessarily be consumed in the same place. It is required in various other places. For this purpose it has to be moved from the place of creation to the place of utility. This can only be done with the help of transportation. Besides transport facilities, communication facilities are also needed in order to exchange information among the producers, traders and consumers. Thus, postal services and telephone facilities may also be considered as auxiliaries to business activities or the supporting business activities.

Banking and Finance : Finance is the blood of business. It is impossible to carry out any business activity without finance. It is used for acquiring assets, purchasing raw materials and meeting day to day expenses of the business. Therefore, this requirement of the business is fulfilled by the banks in the form of short term and long term loans, credit facilities, advances, etc.

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Q12 What is the role of profit in business ?

Answer. Profit is regarded as the most important objective of business. It is one of the basic requirements of the business in the long run. This acts as a motivating factor for the expansion of the business. It is excess of revenue over cost.

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Q13 What is 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, the demands of a particular good may decline due to a change in the taste and preference of people. It may also change due to the prices of the complementary goods or may also change due to the emergence of new products into the market. Changes in the fashion sense of people also changes the demands of the people.

The nature of business risks are :

- 1) Business risks arise due to uncertainties.
- 2) Risk is an essential part of every business.
- 3) The nature and size of the business are the two main determinants of the degree of risk.
- 4) Profit is the reward for task taking.

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Q1 Discuss the development of indigenous banking system in Indian subcontinent.

Answer. With various departments, the economic life of people progressed gradually. Money served as a medium of exchange, the introduction of metallic money and it's accelerated the economic activities and it's growth.

Indigenous banking system played a very important role in lending money and financing domestic and foreign trade with currency and letters of credit. When banking services were developed, then people started depositing their 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.

Documents such as Hundi and Chitti were used for carrying out transactions. In this money passed from hand to hand. Hundi was very prominent as an instrument of exchange in the subcontinent.

The intermediaries also played an important role in the promotion of trade. They provided 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 days of Mughal period and the days of East India Company. The emergence of credit transactions and availability of loans and advances enhanced commercial operations. The balance of trade was favourable in the Indian subcontinent and the indigenous banking system benefitted the manufacturers, traders, and merchants with funds for development and expansion.

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Q2 Define business. Describe its important characteristics.

Answer. Business is derived from the term 'busy'. Business refers to the trading of goods and services on a regular basis. The main motive of these activities is to earn profits as income. The activities 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 are as follows :

(i) An economic activity : A business is an economic activity which is undertaken in order to earn money income and profits. It isn't done for charitable purposes, love, affection, sympathy or any emotion. It is undertaken by an individual or by a group of individuals.

(ii) Production or procurement of goods and services : In order to fulfill the needs of people goods must be either produced or procured by business enterprises. Thus the business enterprise may produce the goods or it may procure them from any other producer in order to sell them to the consumers. These goods can be consumer goods or capital goods.

(iii) Sale or exchange of goods and services : Each and every business involves transfer or exchange of goods and services for value either directly or indirectly. Goods purchased for personal consumption don't constitute a business. Thus goods must be purchased for resale

purposes. Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is a business.

(iv) Dealings in goods and services on a regular basis : Business involves dealings in goods or services on a regular basis. If an individual or any institution is selling goods or services only once or twice then it doesn't constitute business.

For example, if a person sells his/her personal car even at a profit, it will not be considered as a business activity. But if he/she sells cars regularly either through a shop or from his/her showroom, 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. Thus businessmen aim at maximizing the profits by increasing the sales or reducing costs.

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Q3 Compare business with profession and employment.

Answer.

Basis	Business	Profession	Employment
1. 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
2. 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

3. 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
4. Reward or return	Profit earned	Professional fee	Salary or wages
5. Capital investment	Capital investment required as per size and nature of	Limited capital needed for establishment	No capital required
6. 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
7. Transfer of interest	Transfer possible with some formalities	Not possible	Not possible

8. Example	Shop, factory	Legal, medical profession, chartered accountancy	Jobs in banks, insurance companies, government departments
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Q4 Define Industry. Explain various types of industries giving examples.

Answer. Industry refers to a group of economic activities, which are connected with the conversion of resources into useful goods. Industry refers to a group of activities in which mechanical appliances and technical skills are involved. Activities pertaining to the production or procurement of goods and services are categorised under industries.

For example, the Iron and Steel industry refers to all manufacturing units producing goods from Raw Iron. Industry can be classified into the following :

(i) Primary industries : Primary industries are those industries which are related to the extraction or production of natural resources or reproduction and rearing or development of living beings, plants etc. These are further divided into two categories :

(a) Extractive industries: These industries are involved in extraction or drawing products from natural sources. Extractive industries supply the basic raw materials that are mostly products of geographical or natural environment. The final output of these industries is used as raw materials by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.

(b) Genetic industries : These are the industries which are engaged in breeding plants and animals for their use in further reproduction. The typical example of this type of industry is the seed and nursery companies. The cattle breeding farms, poultry farms, and fish hatchery are also 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 for 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 processing of raw materials and, thus, creating form utilities. They bring out diverse finished products, that we consume, or use through the conversion of raw materials or partly finished materials in their manufacturing operations.
- (b) Construction industries : These are the industries that 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.
- (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. As business activities, these may be considered part of commerce because as auxiliaries to trade these activities assist trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.

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Q5 Describe the activities relating to commerce.

Answer. Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to the consumers or users. These days goods are produced on a large scale and it is difficult for producers to themselves reach out to individual buyers for selling their products.

Auxiliaries to Trade Activities which are meant for assisting trade are known as auxiliaries to trade. These activities are generally referred to as services because these are in the nature of facilitating the activities relating to industry and trade. Transport, banking, insurance, warehousing, and advertising are regarded as auxiliaries to trade, i.e., activities playing a supportive role. In fact, these activities support not only trade, but also industry and, hence, the entire business activity. Auxiliaries to trade are briefly discussed below:

(i) Transport and Communication : Production of goods generally takes place in particular locations. For instance, tea is mainly produced in Assam; cotton in Gujarat and Maharashtra; jute in West Bengal and Odisha; sugar in U.P., Bihar and Maharashtra and so on. But these goods are required for consumption in different parts of the country. The obstacle of place is removed by transport through road, rail or coastal shipping

(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.

(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 help in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accidents and occupational hazards.

(iv) Warehousing : Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangements 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. Prices are, thereby, maintained at a reasonable level through continuous supply of goods.

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Q6 Explain any five objectives of business.

Answer. Objectives are needed in every area where performance and results affect the survival and prosperity of business. Some of these areas are described as follows.

(i) Market standing : 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.

(ii) Innovation : Innovation is the introduction of new ideas or using new 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. No business enterprise can flourish in a competitive world without innovation. Therefore, innovation becomes an important objective.

(iii) Productivity : Productivity is ascertained by comparing sure 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.

(iv) Physical and financial resources : 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.

(v) Earning profits: One of the objectives of business is to earn profits on the capital employed. Profitability refers to profit in relation to capital investment. Every business must earn a reasonable profit which is so important for its survival and growth.

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Q7 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 or even shortage of working capital requirements.. 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 or may be due to the fluctuations in the prices of complementary goods.

Lower demand results in long sales and profits. In another situation, the shortage of raw materials in the market may shoot up its price. The firm using these raw materials will have to pay more for buying them. As a result, the cost of production may increase which, in turn, may reduce profits. Business enterprises constantly face two types of risk : 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.

Cause of Business Risks :

Business risks arise due to a variety of causes, which are classified as follows :

(i) Natural causes : Human beings have little control over natural calamities, like flood, earthquake, lightning, heavy rains, famine, etc. property and income in business.

(ii) Human causes : Human causes include such unexpected events, like dishonesty, 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 rise in interest rate for borrowing, levy of higher taxes, etc., also come under these types of causes as they result in higher unexpected cost of operation or business.

(iv) Other causes : These are unforeseen events, like political disturbances, mechanical failures, such as the bursting of boilers, fluctuations in exchange rates, etc, which lead to the possibility of business risks.

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Q8 What factors are to be considered while starting a business? Explain.

Answer. Some of the basic factors, which must be considered by anybody who is to start the business are as follows.

(i) Selection of line business: The first thing that an entrepreneur must decide is the nature and type of business to be undertaken. He/she will most probably like to enter the branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.

(ii) Size of the firm : The size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favour a large size, whereas others tend to restrict the scale of operation. If the entrepreneur is confident that the 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 a better choice.

(iii) Choice of form of ownership : With respect to ownership, the business organisation 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.

(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 high cost of production, inconvenience in getting, right kind of production inputs or serving the customers in the best possible way. 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.

(v) Financing the proposition : Financing is concerned with providing the necessary capital for starting, as well as, for continuing the proposed 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. Proper financial planning must be done to determine (a) the requirement of capital, (b) source from where the capital will be raised and (c) the best ways of utilising the capital in the firm.

(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 business, availability of funds and the process of production.

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