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## Exercises

### Multiple Choice Questions

1. Which of the following does not characterize a business activity?  
(a) Production of goods and services  
(b) Presence of risk  
(c) Sale or exchange of goods and services  
(d) Salary or wages  
▶ (d) Salary or wages
  
2. Which of the broad categories of industries covers oil refinery and sugar mills?  
(a) Primary  
(b) Secondary  
(c) Tertiary  
(d) None of them  
▶ (b) Secondary
  
3. Which of the following cannot be classified as an auxiliary to trade?  
(a) Mining  
(b) Insurance  
(c) Warehousing  
(d) Transport  
▶ (a) Mining
  
4. The occupation in which people work for others and get remunerated in return is known as

- (a) Business
  - (b) Employment
  - (c) Profession
  - (d) None of them
- ▶ (b) Employment

5. The industries which provide support services to other industries are known as

- (a) Primary industries
  - (b) Secondary industries
  - (c) Commercial industries
  - (d) Tertiary industries
- ▶ (d) Tertiary industries

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6. Which of the following cannot be classified as an objective of business?

- (a) Investment
  - (b) Productivity
  - (c) Innovation
  - (d) Profit earning
- ▶ (a) Investment

7. Business risk is not likely to arise due to

- (a) Changes in government policy
  - (b) Good management
  - (c) Employee dishonesty
  - (d) Power failure
- ▶ (b) Good management

### Short Answer Questions

1. State the different types of economic activities.

## **Answer**

The different types of economic activities are:

→ Business: It refers to those economic activities, which are connected with the production or purchase and sale of goods or supply of services with the main object of earning profit. People engaged in business earn income in the form of profit.

→ Profession: It includes those activities, which require special knowledge and skill to be applied by individuals in their occupation. Those engaged in professions are known as professionals.

→ Employment: It refers to the occupation in which people work for others and get remunerated in return. Those who are employed by others are known as employees.

## **2. Why is business considered an economic activity?**

### **Answer**

Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason.

## **3. Explain the concept of business.**

### **Answer**

The term 'business' has been derived from the word 'busy', Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production or sale of goods and services with a view to

earning 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.

#### 4. How would you classify business activities?

##### **Answer**

The business activities can be classified as:

→ Industry: It refers to economic activities, which are connected with conversion of resources into useful goods. These include activities relating to producing or processing of goods as well as breeding and raising of animals. Among the major activities that are performed by an industry are production, processing and manufacturing. Industries are classified into the three categories as primary, secondary and tertiary.

→ Commerce: It does not involve manufacturing or production. It basically involves trading and its related activities. It includes both, buying and selling of goods as well as auxiliaries such as transport, banking, etc. It provides the necessary link between producers and consumers. It includes all those activities, which are necessary for maintaining a free flow of goods and services.

#### 5. What are the various types of industries?

##### **Answer**

The various types of industries are:

→ Primary Industries: These include all those activities which are connected with the extraction and production of natural resources and reproduction and development of living organisms, plants

etc. Agriculture, mining and fishing are some of the examples of these industries.

→ Secondary Industries: These industries use raw material from primary industries to produce goods for final consumption or for further processing by other industrial units. For example, mining of an iron ore is a primary industry, but manufacturing of steel by way of further processing of raw iron is a secondary industry.

→ Tertiary Industries: These industries provide support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities such as transport, banking, insurance, warehousing, communication, packaging and advertising.

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

### **Answer**

Two business activities which are auxiliaries to trade are:

→ Insurance: Business involves various types of risks. Factory building, machinery, furniture etc. must be protected against fire, theft and other risks also employees are required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

→ Advertising: It is one of the most important methods of promoting the sale of products, particularly, consumer goods like electronic goods, automobiles, soaps, detergents etc. This provides a medium to reach a large number of potential buyers and increase the number of sales.

## 7. What is the role of profit in business?

### Answer

The business exist only due to profit. Making money is the sole purpose of any business. It is a source of income for business persons. It can be a source of finance for meeting expansion requirements of business. It indicates the efficient working of business. Profit can be taken as society's approval of the utility of business and builds up the reputation of a business enterprise.

## 8. What is business risk? What is its nature?

### Answer

Business risk is the possibility of failing to earn sufficient profits or incurring losses as a result of various unforeseen circumstances which are beyond the control of a business. The nature of business risk are:

- Business risks arise due to uncertainties,
- Risk is an essential part of every business,
- Degree of risk depends mainly upon the nature and size of business,
- Profit is the reward for risk taking. Business risks arise due to a variety of causes including natural, human, economic and other causes.

### Long Answer question

#### 1. Explain the characteristics of business.

### Answer

The characteristics of business are:

- Economic Activity: The sole purpose of an business activity is to make money to earn livelihood.

→ Sale or exchange of goods and services: Business basically involves sale or exchange of goods and services for a value between the seller and the buyer.

→ 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.

→ Profit earning: The main aim of any business activity is to make profit. No business can survive for long without earning profit.

→ Uncertainty of return: It 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 to earn money but it is not certain as to what amount of profit will be earned or losses may also occur.

→ Element of risk: Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event. No business can altogether do away with risks.

## 2. Compare business with profession and employment.

### Answer

<b>Basis</b>	<b>Business</b>	<b>Profession</b>	<b>Employment</b>
<b>Mode of establishment</b>	Entrepreneur's decision and other legal formalities, if necessary.	Membership of a professional body and certificate of practice.	Appointment letter and service agreement.
<b>Nature of work</b>	Provision of goods and	Rendering of personalized, expert services.	Performing work as per service contract

	services to the public.		or rules of service.
<b>Qualification</b>	No minimum qualification is necessary.	Expertise and training in a specific field is must.	Qualification and training as prescribed by the employer.
<b>Reward or return</b>	Profit earned.	Professional fee.	Salary or wages.
<b>Capital investment</b>	Capital investment required as per size and nature of business.	Limited capital needed for establishment.	No capital required.
<b>Risk</b>	Profits are uncertain and irregular; risk is present.	Fee is generally regular and certain; some risk.	Fixed and regular pay; no or little risk.
<b>Transfer of interest</b>	Transfer possible with some formalities.	Not possible.	Not possible.
<b>Code of conduct</b>	No code of conduct is prescribed.	Professional code of conducts is to be followed.	Norms of behavior laid down by the employer are to be followed.

### 3. Explain with examples the various types of industries.

#### Answer

The various types of industries are:

→ Primary Industries: These industries directly use natural resources as their raw materials and convert them into a consumable form such as Agriculture, mining, fishing, etc. These can be sub divided as

- Extractive industries: These industries supply some basic raw materials that are mostly products of geographical or natural environment, which further process these products into useful goods. Example: Agriculture, fisheries, mining, etc.
- Genetic industries: These industries remain engaged in breeding plants and animals for their use in further reproduction. Example: Seeds and nursery industries and poultry farming.

→ Secondary industries: These industries uses raw material from primary industries to produce goods for final consumption or for further processing by other industrial units. For example, mining of an iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry.

- Manufacturing industries: These industries are engaged in producing goods through processing of raw materials and thus creating form utilities. These can be further divided into:

(i) Analytical industry which analyses and separates different elements from the same materials, as in the case of oil refinery.

(ii) Synthetical industry which combines various ingredients into a new product, as in the case of cement.

(iii) Processing industry which involves successive stages for manufacturing finished products, as in the case of sugar and paper.

(iv) Assembling industry which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

- Construction industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals.

→ Tertiary Industries: These are concerned with providing support

services to primary and secondary industries as well as activities relating to trade. This include transport, banking, insurance, warehousing, communication, packaging and advertising.. These industries are not engaged in hardcore production activities but are basically service providers.

#### 4. Describe the activities relating to commerce.

##### **Answer**

Commerce includes two types of activities- trade and auxiliaries to trade. Buying and selling of goods is termed as trade. Auxiliaries to trade are activities that facilitate the trading process.

→ Trade: It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to ultimate consumers or users. Trade may be classified into two broad categories — internal and external.

- Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country.
- External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries.

→ 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. The various auxiliaries to trade are:

- Transport and Communication: Transport facilitates movement of raw material to the place of production and the finished products from factories to the place of consumption. Communication facilities allow the producers, traders and consumers to exchange information with one another.
- Banking and Finance: banking helps business activities to overcome the problem of finance. Commercial banks generally lend money by

providing overdraft and cash credit facilities, loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders.

- Insurance: It provides protection to business against various risks such as fire, theft. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.
- Warehousing: Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed.
- Advertising: is one of the most important methods of promoting the sale of products, particularly, consumers goods like electronic goods, automobiles, soaps, detergents etc.

**5. Why does business need multiple objective? Explain any five such objectives.**

### **Answer**

Since a business has to balance a number of needs and goals, it requires multiple objectives. The objectives define in concrete terms what the business is going to do. Objectives also enable the business to analyse their own performance and take steps as necessary to improve their performance in future. Objectives are needed in every area where performance and results affect the survival and prosperity of business.

The five such objectives are:

→ Market Standing: It 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.

→ Innovation: 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) innovation in product or service and

(ii) innovation in various skills and activities needed to supply products and services.

→ 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.

→ Productivity: It 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.

→ Social responsibility: It refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.

## 6. Explain the concept of business risk and its causes.

### Answer

Business risk is the possibility of failing to earn sufficient profits or incurring losses as a result of various unforeseen circumstances which are beyond the control of a business. 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.

→ Natural causes: Human beings have little control over natural calamities like flood, earthquake, lightning, heavy rains, famine, etc. These result in heavy loss of life, property and income in business.

→ 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.

→ 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.

→ Other Causes: These are unforeseen events like political disturbances, mechanical failures such as the bursting of boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

**7. What factors are important to be considered while starting a business? Explain.**

### **Answer**

The following are important factors needs to be considered while starting a business:

→ Selecting the line of business: The line of business is the foremost decision that involves choosing the kind of product to produce, analysing its existing and future market demand, profit considerations and the level of technical knowhow possessed by the entrepreneur.

→ Scale of the business: Once the line of business is selected, the entrepreneur needs to decide the scale of the business, i.e., the business size, whether to operate on large scale or small scale. The choice of scale of business is made on the degree of risk embedded in

- (i) the line of business
- (ii) the ease of obtaining capital and
- (iii) the projected demand for the product

A larger scale of business is preferred if the risk involved is low and the entrepreneur is confident about the high demand for the product.

Similarly, the greater the ease of obtaining capital, the greater is the ease of operating a business on a large scale and vice versa.

→ Location: The choice of business location is dependent on numerous factors such as easy and cheap availability of raw material and labour, well-connected transportation facilities, and power and other infrastructural facilities. Generally, locations where good infrastructure is available are preferred.

→ Financial requirement: Finance is required for every aspect of business- from the purchase of raw material and machinery to further investment for the growth of the business. Therefore, while starting a business, the availability of alternatives to raise funds must be carefully analysed.

→ Efficient workforce: A competent and trained workforce is the basic input to carry on various business activities. In this regard, the entrepreneur must appropriately identify the requirement of human resources for the business, both at the worker level and at the managerial level.

→ Physical requirements: These requirements include machinery, other equipment, tools and technology that add to the efficiency of a business. The entrepreneur must carefully consider and decide the physical requirements on the basis of the nature and production scale of the business