



**CBSE**

**CLASS-11<sup>th</sup>**

**THE CENTRAL BOARD OF SECONDARY EDUCATION**

**BUSINESS STUDIES**



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# **CHAPTER 1: BUSINESS, TRADE AND COMMERCE**

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## **INTRODUCTION**

All human beings where ever they may be require different types of goods and services to satisfy their needs. Business is a major economic activity in all modern societies concerned with production and sales of goods and services required by the people. It is aimed at earning money by satisfying human demands.

## MEANING OF BUSINESS

- ✓ Literal meaning of business is “BUSY”.
- ✓ Business is defined as an economic activity
- ✓ Involved in the production of goods and services
- ✓ Undertaken with the motive of earning profit
- ✓ By satisfying human needs in the society

## INDIGENOUS BANKING SYSTEM

### HUNDI

Hundi is an instrument of exchange which was prominent in the subcontinent. It involved a contract which-

- ✓ Warrant the payment of money, the promise or order which is unconditional
- ✓ Capable of change through transfer by valid negotiation

Hundi as practised by Indian Merchant Communities:

NAME OF HUNDI	BROADER CLASSIFICATION	FUNCTIONS OF HUNDI
Dhani -jog	Darshani	Payable to any person- no liability over who received payment.
Sah-jog	Darshani	Payable to a specific person, someone ‘respectable’. Liability over who received payment.
Firman-jog	Darshani	Hundi made payable to order.
Dekhan-har	Darshani	Payable to the presenter or bearer.

Dhani-jog	Muddati	Payable to any person—no liability over who received payment, but payment over a fixed term.
Firman-jog	Muddati	Hundi made payable to order following a fixed term.
Jokhmi	Muddati	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the costs, and the Drawee carries no liability.

### **RISE OF INTERMEDIARIES**

- ✓ Prominent role in promotion of trade.
- ✓ Provide Financial security in return of risk taken.
- ✓ Comprise of Commission agent, broker, distributor for wholesale and retail goods.
- ✓ Foreign trade was financed by loans.
- ✓ The rate of interest for longer voyages was kept high in view of the huge risk involved.
- ✓ With the emergence of credit transactions, exports exceeded the import which in turn benefitted the indigenous banking system.
- ✓ Commercial and Industrial bank evolved to finance, trade and commerce.
- ✓ Agricultural bank evolved to provide short- and long-term finance to agriculturist.

### **TRANSPORT**

- ✓ Roads: Important for inland trade and trade over land. Trade routes were structurally wide and suitable for speed and safety
- ✓ Trade maintained by means of sea is referred to as maritime trade, which was another important branch of global trade network.

- ✓ Malabar Coast, on which Muziris is situated. Pepper was particularly valued in the Roman Empire and was known as “Black Gold”.
- ✓ It was in the search for an alternate route to India for spices that led to the discovery of America by Columbus in the closing years of 15<sup>th</sup> century and also brought Vasco Da Gama to the shores of Malabar in 1498.
- ✓ 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 Middle East, as well as, pepper, diamonds, pearls, and cotton from India.
- ✓ On the Coromandel Coast, Pulicat was a major port in the 17<sup>th</sup> century. Textiles were the principal export from Pulicat to Southeast Asia.

### **COMMUNITIES THAT DOMINATED INDIAN TRADE**

- ✓ Punjabi and Multani merchants: handled business in northern region
- ✓ Bhats: managed trade in state of Gujarat and Rajasthan
- ✓ Mahajan: traders in western India
- ✓ Chatt: traders from south
- ✓ Nagarseth: In urban centres, such as Ahmedabad and Mahajan community collectively represented by their chief called Nagarseth
- ✓ Other urban groups: included professional classes such as hakim and vaid (physician), vakil (lawyers). Pundit or mullla (teachers), painters, musicians, calligraphers etc.

### **MERCHANT CORPORATION**

- ✓ The merchant community derived power and prestige from guilds, which were autonomous corporations.
- ✓ Formed to protect the interest of traders
- ✓ Framed their own rules of membership and code of conduct which kings also accepted
- ✓ Trade and Industrial taxes were a major source of revenue

- ✓ The ferry tax was another source of income generation. It had to be paid for passengers, goods, cattle and carts.
- ✓ The chief directly deals with king, tax collector and settle market toll on behalf of merchant at fixed sum of money.

### **MAJOR TRADE CENTRES**

- ✓ Pataliputra- Export of stones
- ✓ Peshawar- Export of wool and import of horses
- ✓ Taxila- Centre for learning
- ✓ Indraprastha- Commercial route on royal road
- ✓ Mathura- emporium of trade, people here subsisted on commerce
- ✓ Varanasi- Centre for textile industry
- ✓ Mithla- traded at ports o the island of java, Sumatra, borneo
- ✓ Ujjain- agate, muslin, carnelian cloth trading
- ✓ Surat- textile trading mainly for their gold border (zari)
- ✓ Kanchi- Pearl, glass, rare stone
- ✓ Madura- Pearl, fisheries
- ✓ Broach- linked to important marts
- ✓ Kaveripatta- trade of perfumes, cosmetics, scent, silk, wool, coral, pearls, gold, precious stones, ship building
- ✓ Tanralipti- greatest port connected by both sea and land

### **EXPORTS AND IMPORTS IN INDIA**

- ✓ In ancient India the exports majorly consisted of spices, wheat, indigo, opium, sugar, sesame live animals' oil, cotton, and animal products such as hides, skin, furs, horns, tortoise shells, pearls, sapphires, crystal, lapis, lazuli, granites, turquoise and copper etc.
- ✓ On the other hand, the imports mainly included animal products, Chinese silk, horses, flax and linen, gold, silver, tin, copper, lead, rubies, coral, glass, amber, etc

## **POSITION OF INDIAN SUBCONTINENT IN WORLD ECONOMY**

- ✓ During ancient and medieval world, India approximately controlled about 1/3<sup>rd</sup> and 1/4<sup>th</sup> of the world's wealth
- ✓ Megasthenes, Faxian (Fa Hien), Xuanzang (Huen Tsang), Al Beruni (11th century), Ibn Batuta (11th century), Frenchman Francois (17th century), often referred India as 'Swaranbhumi' and 'Swarndweep'
- ✓ Pre-colonial period was an age of prosperity for Indian economy and made the Europeans embark great voyage of discovery
- ✓ The control of East India Co. resulted in lack of freedom, no agricultural and scientific revolution, limited reach of education to the masses, population growth, etc. which made India a poor country
- ✓ Under the British empire, Indian economy was reduced to a mere exporter of raw materials

## **REINDUSTRIALISATION IN INDIA**

- ✓ After independence the government of India adopted Central Planning by setting up Planning Commission which formed Five-year plans for aiming at India's growth.
- ✓ However, despite the efforts the Indian economy could not grow at the required pace.
- ✓ The major reasons behind the lack of growth included lack of capital formation, constant rise in population, huge expenditure on defence and inadequate infrastructure.
- ✓ Gradually as a result, India started relying heavily on borrowings from foreign sources, lastly agreeing to economic liberalisation in 1991.

## **CURRENT SCENARIO**

- ✓ India is one of the fastest growing economies in the world
- ✓ Preferred FDI destination
- ✓ Rising incomes, savings, investment, domestic consumption and younger population
- ✓ High growth in sectors

- ✓ Initiatives by Government such as 'Make in India', 'Skill India', 'Digital India' and Foreign Trade Policy adding to growth

## **BUSINESS**

### **❖ Meaning/Concept of Business**

- ✓ The word 'business' has been derived from the word 'busy', which means engaged in an activity.
- ✓ A person engaged in a business deals with the trading of goods or services on a regular basis.
- ✓ The sole motive of carrying out a business is to earn profit.

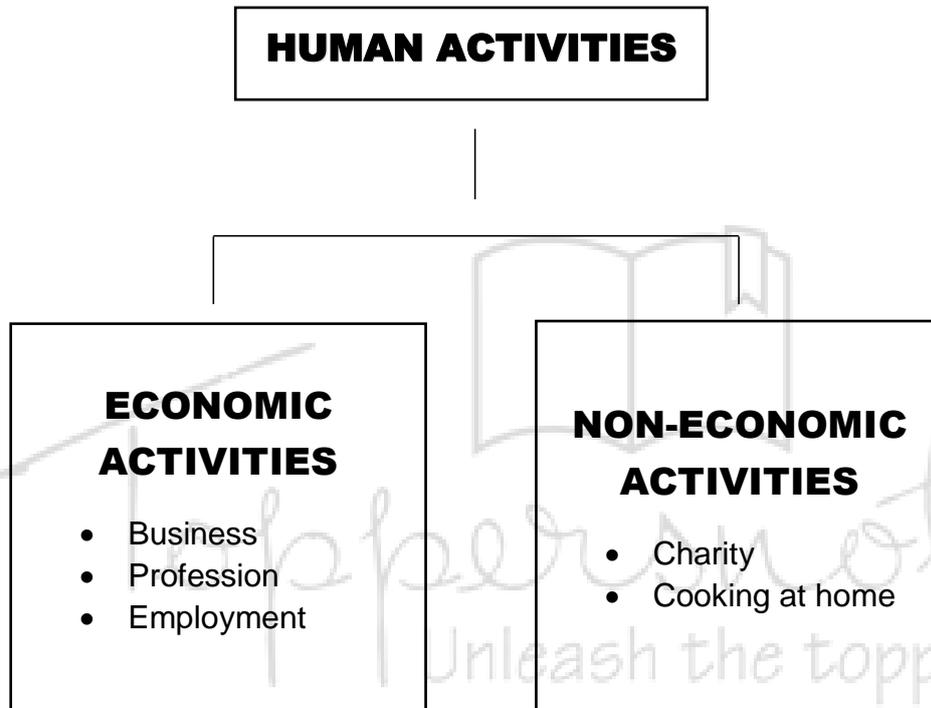
### **❖ Features/Characteristics of Business**

- (i) **Economic activity:** As a business is carried out with the sole objective of earning profit, it is characterised as an economic activity.
- (ii) **Procurement of raw materials :** Business involves procurement of raw materials and semi-finished goods, which are then processed into final goods. These final goods are then sold to the end consumers at higher prices.
- (iii) **Profit motive:** Earning profit is the sole and the most important objective of all business activities.
- (iv) **Exchange of goods and services:** Business basically involves an exchange of goods and services for money.
- (v) **Regular basis:** The exchange of goods and services (as mentioned in the point above) is done on a regular basis. A single or only a few transactions of exchange do not constitute a business.
- (vi) **Business risk:** Every business, irrespective of its size (large or small) and the types of goods it deals in, faces business risks (in the form of loss).
- (vii) **Customer satisfaction:** Besides the profit motive, a business also aims at satisfying consumers' wants. A business must produce goods and services considering consumers' needs.

## **HUMAN ACTIVITIES**

Humans carry out various activities to satisfy their different kinds of needs including livelihood, psychological and financial needs. These activities are known as human activities.

Human activities can be classified into two main categories: economic activities and non-economic activities.



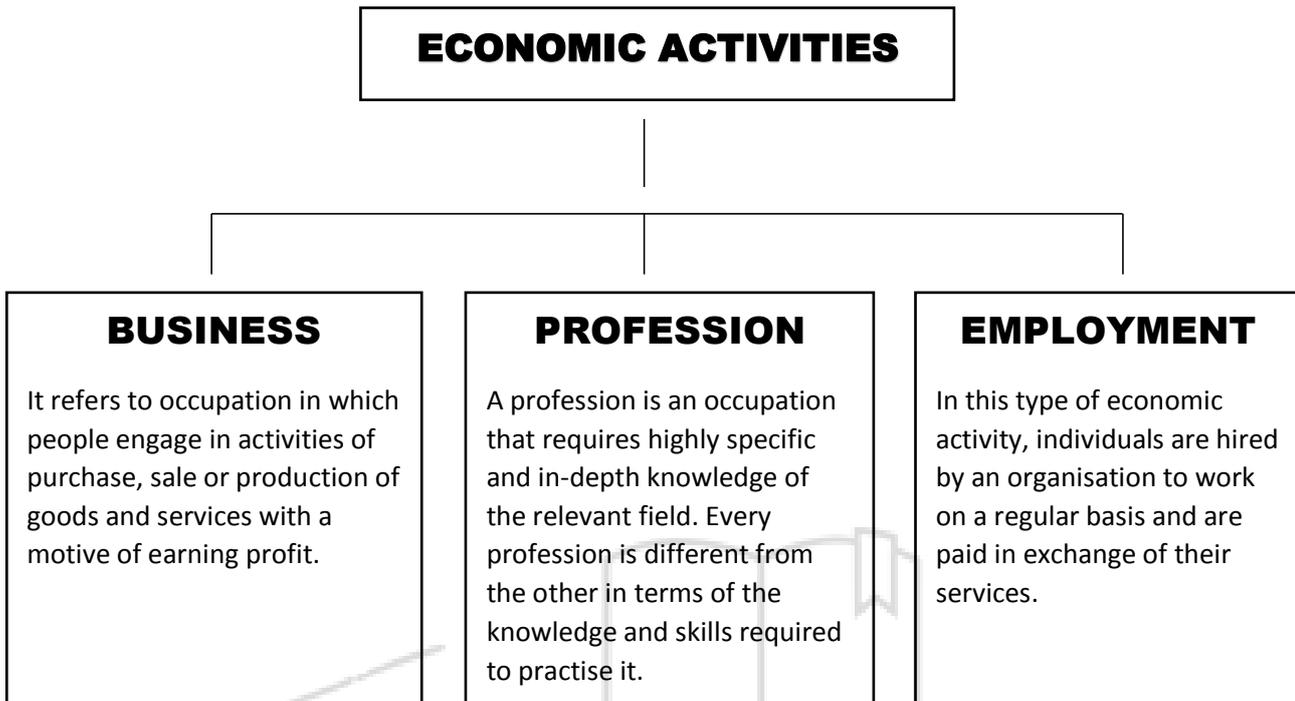
### ➤ **Non-Economic Activities**

These activities are carried out by an individual to fulfil psychological needs; these activities are undertaken for self-satisfaction rather than for earning income or profit—for example, contributing to charity, cooking food for the family, etc.

### ➤ **Economic Activities**

As against non-economic activities, these activities are carried out with the basic objective of earning income or profit—for example, a teacher teaching in a school, a worker working in a factory, etc. Economic activities can further be classified into three categories: business, profession and employment.

## CLASSIFICATION OF ECONOMIC ACTIVITIES



## COMPARISON BETWEEN BUSINESS, PROFESSION AND EMPLOYMENT

Basis Of Difference	Business	Profession	Employment
<b>Commencement</b>	Can be started by an entrepreneur depending on his or her decision to do so	Can be practiced only after a successful completion of a (professional) degree or a certificate course.	Commences as soon as the appointment letter and the service agreement is signed by the employer and the employee.

<b>Investment required</b>	It varies as per the size and nature of the business	Limited	Nil
<b>Risk involved</b>	The degree of risk involved depends on the nature of goods produced dealt in by the business and the scale of business operations	Comparatively low	Nil
<b>Transfer of ownership</b>	It is possible and subjected to the fulfilment of certain legal formalities.	Ownership cannot be transferred, as the professional himself/herself procures the required degree and skills.	Ownership cannot be transferred.
<b>Reward or remuneration</b>	Profit	Fees	Wages/Salary
<b>Code of conduct</b>	A business does not require a code of conduct.	The code of conduct is prescribed by	The code of conduct is prescribed in the form of terms

		professional associations	and conditions laid down by the organisation.
<b>Qualification</b>	No minimum qualification is required	Prescribed professional qualification is required.	It depends upon the nature of the job

### CLASSIFICATION OF BUSINESS ACTIVITIES

Business activities can be classified into two broad categories: industry and commerce.

#### **BUSINESS ACTIVITIES**

#### **INDUSTRY**

Industry refers to those economic activities wherein raw materials are processed and converted into final products. During the process, value addition to the raw materials takes place. The final products have the higher value compared to the raw materials.

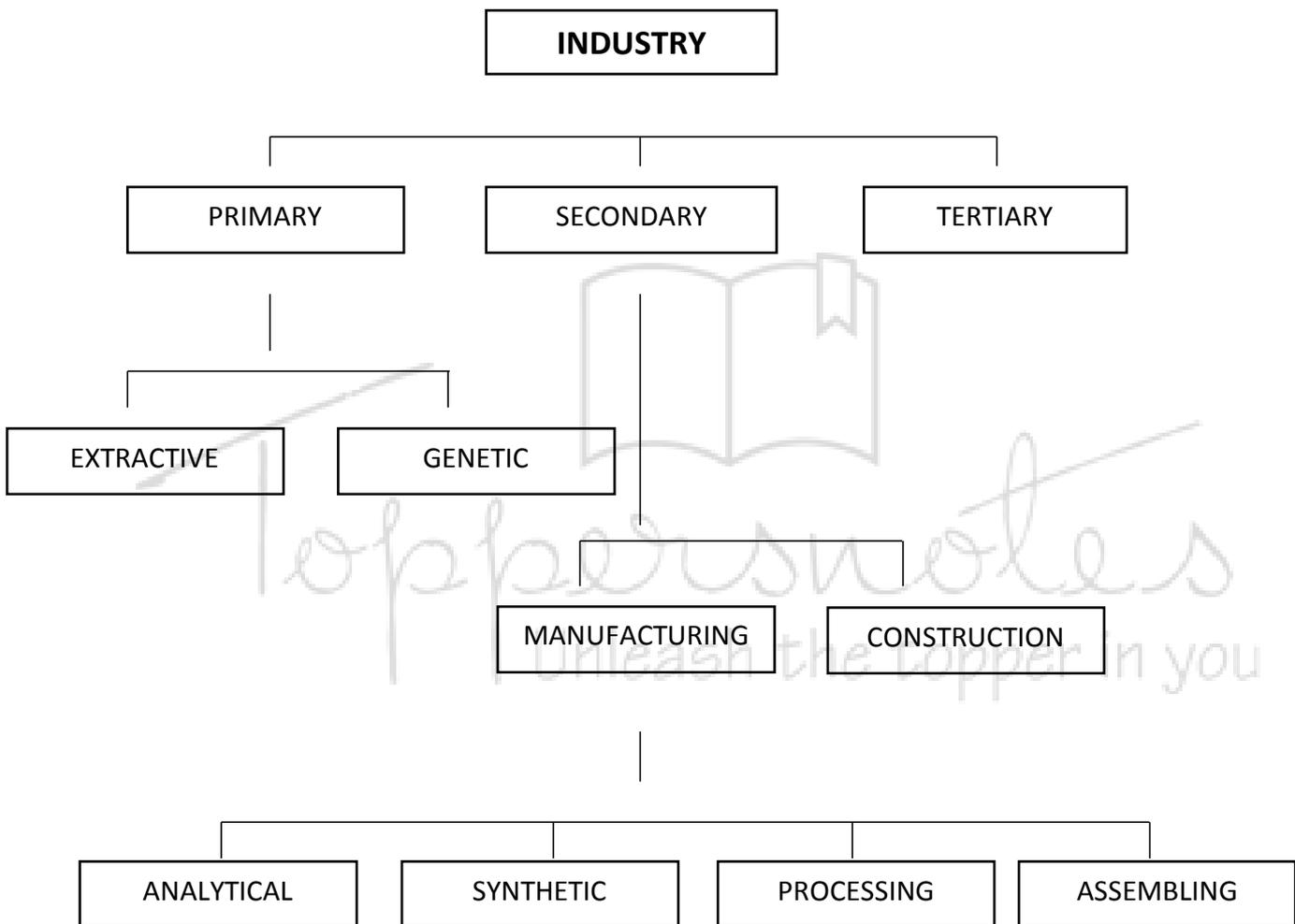
#### **COMMERCE**

It involves the trade/exchange of goods and services. Unlike industry, commerce does not involve production. Commerce bridges the gap between the producers and the sellers and removes the hindrances in the process of exchange

## INDUSTRY

### Classification of Industries

Industries are further classified into three categories: primary, secondary and tertiary.



#### ➤ **Primary Industries**

These industries undertake activities related to the extraction and processing of natural resources. Based on the nature of activities performed, primary industries can further be classified into extractive and genetic industries.

- i. **Extractive industries:** These industries deal with the extraction and refinement of natural resources.

- ii. **Genetic industries:** These industries undertake activities related to the breeding of plants and animals that are then used for further reproduction.

➤ **Secondary Industries**

These industries acquire raw materials (the final products of primary industries) and further process them into final goods. These industries can further be classified in two categories:

- i. **Manufacturing industries:** These industries process raw materials or semi-finished goods into finished products, which can readily be used by the final consumer. Manufacturing industries can further be classified in four categories:

- a. **Analytical industries:** These industries analyse a single product (raw material) and then refine and separate different elements from it to prepare the final product.

- b. **Synthetic industries:** These industries combine different raw materials, which serve as ingredients, to produce a new product.

- c. **Processing industries:** In these industries, the raw material is processed and refined in various stages and converted into the final product.

- d. **Assembling industries:** These types of industries combine various smaller components to form a new final product.

- ii. **Construction industries:** These industries are concerned with the construction and development of infrastructure such as buildings, bridges, dams and roads.

➤ **Tertiary industries**

These industries constitute the service providers that facilitate the operations of primary and secondary industries.

Some of the major services provided by tertiary industries are banking and credit facilities, communication and transportation.

## COMMERCE

### Functions/Role of Commerce

- Trade- removes hindrance of person
- Insurance- removes hindrance of risk
- Transportation- removes hindrance of place
- Banking – removes hindrance of finance
- Storage and Finance- removes hindrance of storage

Commerce bridges the gap between the producers and the sellers and removes the hindrances in the process of exchange. Following are the ways in which hindrances in the process of exchange can be overcome by commerce:

**i. Trade:** It involves the exchange of goods between producers and consumers, which, in turn, helps in making the goods available to consumers easily. As traders serve as a link between the producers and the customers, they overcome the **hindrance of person**.

**ii. Insurance:** It helps in recovering the losses incurred in case of any damage. Thus, insurance acts as a shield against the risks and overcomes the **hindrance of risk**.

**iii. Transportation:** Transportation enables the producers to move their goods to the market in order to sell them to the consumers. This helps in overcoming the **hindrance of place**.

**iv. Banking:** Efficient banking facilities and ready availability of cheap credit to businessmen and traders. This helps in overcoming the **hindrance of finance**.

**v. Storage and warehousing:** Modern technology has facilitated the production of goods in large quantities. Warehousing helps the producers in storing goods until they are sold to the final consumers, thus overcoming the **hindrance of storage**.

## ➤ Classification of Commerce

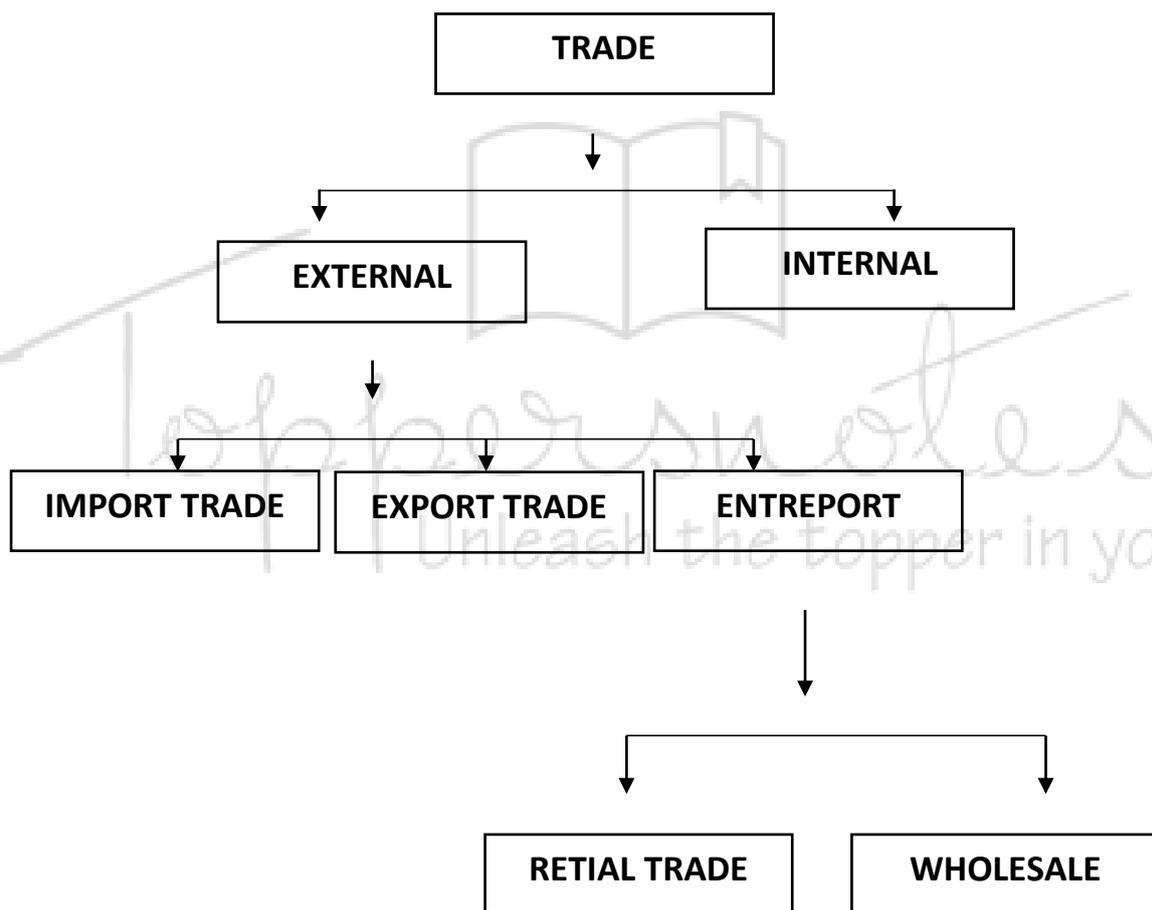
Commerce can be classified into two categories: trade and auxiliaries to trade.

### ❖ Trade

**Meaning:** Trade refers to the buying and selling of goods and services.

### ➤ Classification

Trade can further be classified into two categories: external trade and internal trade.



### ➤ External trade

The trade that takes place between two or more countries is known as external trade.

Following are the various forms of external trade:

**i. Import trade:** It refers to the purchase of goods and services from foreign countries in order to consume them in the native country.