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Nature, Purpose and Scope of Business

What will you learn in this chapter ?

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Introduction

Economic activities keep trade and commerce alive all over the world. In your city or village a potter, a blacksmith, a weaver, a cobbler gets economic benefits or monetary returns through economic activities. Thousands of employees work in cities in small or big factories to get employment. All these activities are economic activities conducted with the objective to earn income. Business is an economic activity conducted with the objective of profit. Besides business, profession and employment are also the types of economic activity. Human needs are increasing continuously. Man has to perform economic activity to satisfy his needs e.g. farmer produces food-grains, lawyer charges fees for representing a case in the court on behalf of his client. A worker gets wages by working in the factory. All these activities are called economic activities as the objective of these activities is to get monetary returns.

Some persons in society performs activities without aiming at economic benefits or monetary returns e.g. a social worker is working with the aim of social service. If doctor provides free medical service with the motivation of social service, it is called non-economic activity. There is no objective of economic benefit, monetary consideration or monetary return.

1.1 Economic Activity

Economic activity means an activity carried out with the objective of economic benefit or monetary consideration. Man has to perform economic activity for his livelihood, so that he can satisfy his needs by getting money. All economic activities are called productive activities. A person doing economic activity satisfies the need of others and gets economic benefits for him, e.g. a farmer by producing food grains, a weaver by manufacturing cloth, a carpenter by manufacturing furniture satisfies the needs of different classes of society and by this way gets economic returns. Economic activities is at the centre of the modern world.

1.2 Non-Economic Activity

The objective of non economic activities is neither monetary returns nor economic gains. Some persons in society perform activities without the objective of monetary consideration or economic gains. e.g. social service carried out by social worker, nursing activity by mother for her children, working of volunteer propagating (doing propaganda for) the unity of community, volunteer working in relief camps where the people are affected by natural calamities like earth quake, Tsunami etc. are called non-economic activities. The motivating factors for these activities are services to country, services to society, feeling of all these brings change in the life of a person.

1.3 Difference between Economic Activity and Non-Economic Activity

Sr. No.	Point of Difference	Economic Activity	Non-Economic Activity
(1)	Objective	Motive is to get economic benefit.	Motive is social service, human service or service to country.
(2)	Expectation	Expectation is profit, salary, fees and maximisation of wealth.	Expectation is service to country, social service
(3)	Type	There are mainly three types : businesses, profession and employment.	No Type
(4)	Risk and Uncertainty	There remain risk and uncertainty.	No risk and uncertainty.

1.4 Types of Economic Activity

There are mainly three types of economic activities : (1) Business (2) Profession and (3) Employment.

1.5 Business

1.5.1 Meaning and Definition : The term “**Business**” is derived from English word “Busy”, which means to remain active or to be active continuously. Business is carried out with motive of getting profit and wealth. The concept of business is related with profit motive. Some times loss is incurred in business even though it is an economic activity. A brief and precise definition of business can be stated as follows :

“Business means any legal economic activity with the motive of profit.”

1.5.2 Characteristics

(1) **Objective of Profit :** The fundamental objective of business is to obtain profit through economic activity. In absence of profit there is no possibility of business. Profit is essential to continue the business. The Goods are sold at a price higher than the cost price, it is called profit. The efficiency of business is even measured with the measurement of profit. **Profit is the barometer of business.**

(2) **Exchange of Goods and Services :** Exchange of goods and services take place when goods and services are sold either by manufacturing or by purchasing. Business involves exchange of goods and services. Goods in physical form and service in invisible or intangible form are exchanged e.g. a Company manufacturing electric equipments exchanges physical goods, while a company providing electric service exchanges service.

(3) Risk and Uncertainty : Business involves risk and element of uncertainties of returns. It involves man made risks such as fire, accident, strike of employees, riot, robbery, theft, change in preferences, decrease in demand, change in life style of public, taste, habit, competition, change in technology etc. while natural risks like tsunami, earth-quake, storm are also involved. All these risks adversely affect the income of the business. The returns from business become uncertain due to various risks. Sometimes there is loss in business due the risks, even though the motive of business is profit.

(4) Creation of Utility : To provide satisfaction to the consumer with the use of goods and service is called creation of Utility. Creation of utility takes place in three ways : form, place and time. When raw material is converted in to consumable finished goods, creation of form utility takes place. When goods are carried over from the place of production to place of consumption, creation of place-utility takes place. Goods are stored when they are not needed and supplied at the time, when they are needed, creation of time utility takes place.

(5) Continuance of Activity : Transactions are carried out regularly and continuously in business. Business is an ongoing monetary activity. A businessman does the activity of purchase and sale continuously with the objective of profit. If a trader or producer constructs a building for his residence and later on sells it and earns profit it is not a business, because the activity of purchase and sale of building is not a regular or continuous activity for him.

(6) Requirement of Money : Money is required from the beginning to the end of a business. Money is required to manufacture finished goods from the raw materials in the factory and also by a trader to purchase goods.

(7) Economic Activity : Business is a part of economic activity under taken with the motive of making profit through earnings.

1.5.3 Objectives : Though the Primary objective of business is making profit, more than one objectives are accepted due to awareness among customers, restrictions of state and changing conditions. The objectives of business can be divided into two parts : (A) Economic and (B) Social.

(A) Economic Objectives :

(1) Profit : Since a business is an economic activity, a reasonable return on the employed capital must be obtained. This return is profit. To earn profit is essential not only for the existence of the business but also for the growth of business. Profit is a motivating force, barometer of efficiency and life blood of business. These days, the concept of reasonable profit is accepted instead of maximum profit. By earning reasonable profit, a business unit gets acknowledgement in the society along with earning fair profit. A business unit can be acknowledged by the society and can survive in the competition by earning fair profit.

(2) Maximisation of Wealth : The object of profit is a short term concept related with annual income of business. Maximisation of wealth is a long term objective. The projects which increase the wealth of business at a long run are accepted. In the circumstances like depression, business has to give up the objective of profit. The objective of maximisation of wealth is related with the economic benefit of the owner of the business.

(3) Other Economic Objectives : Other economic objectives include economic development and growth of business, expansion of market, best possible utilisation of resources, application of modern technology etc.

(B) Social Objectives :

Some social objectives are given priority by business for the benefit of the society. The existence of business is not possible without society. Business is due to society. Therefore, the importance of the objectives other than profit is accepted. Social objectives are given on next page :

(1 Objective of Social Responsibility It has become necessary for the business to be aware of the interest of the different groups of society because of consumer's awareness, state's restrictions, consumer's education, consumer's associations. Different interest groups or classes of society, such as owner, employees, customers, creditors, government etc. are associated with business unit and these different groups have different interest with business. It is necessary to take care of the interest of these different groups. The business has to abide by maintenance of environment, Employee's Welfare Act, Factory Act, Consumer Protection Act etc.

2 Objective to Provide Employment Opportunities The unemployment ratio is increasing day by day. Some business units are established with objective to create new opportunities of employment e.g., Khadi and Cottage Industries Commission selects those industries which provide employment opportunities. Preference is given to the establishment of business units in backward areas to provide employment to unemployed.

3 Objective to Provide Quality Goods and Services It is the objective to provide quality goods and services in order to make them easily available to the people of society, so that they can satisfy their needs. The units manufacturing spices used in cooking, cold drinks, food products have to maintain the standards of high quality. Business units having social objective are committed to provide goods and services at fair price e.g. delivery of goods at home after sale service, installation of goods etc.

4 Objective to Adopt Fair Trade Practices Black marketing of products, accumulation of goods, misleading advertisement, etc. are unfair practices in business. Artificial scarcity of essential goods must not be created. Business units must adopt the objective of fair trade practices for the welfare of customers and society.

5 Other Objectives Other social objective are (I) to establish special identity in society. (II) to conduct research work in the field of production. (III) to be helpful in the economic development of the nation and to co-operate with the government for the same. (IV) to provide various incentives to the employees and execute welfare schemes for them.

1 5 4 Business Risks : There is an uncertainty of profit or risk of loss in the business. The uncertain events of the future affect the profit. Thus it can be said that “ **Profit is a reward against business risks.**” There are two types of risks in business. : (A) Natural risks and (B) Man made risks.

(A) Natural Risks : Natural risks like Earth-quake, flood, etc. hinder the growth of business and destroy or damage the assets of business. The business has no control over natural risks.

(B) Man-made Risks : Man-made risks hinder the development of business and as a result, business has to suffer the loss. These risks are; strike of employees, change in technology, change in taste and demand of customers, political instability, risks of competition in market and so on.

1 5 5 Causes of Business Risks :

1 Change in Technology Changes are necessary in production method due to inventions in technology. New technology is to be adopted to produce high quality goods. New machinaries have to be installed for the replacement of old machinaries.

2 Threat of Substitute Products The customers may turn to substitute product due to change in technology. e.g. ball pen in the place of fountain pen, vessels of steel in the place of copper and brass, television in the place of radio.

3 Competition Competition increases the business risks which directly affect the business profit. The sale price of the product is to be reduced and advertisement expenses are to be incurred by business unit to maintain its position in market and to face competition, thus profit gets reduced.

4 Legislation Government formulates law regarding pollution, customers, workers, industry etc. But these laws cause risks for business e.g. Minimum Wages Act and Factory Act. They hinder the business in decision making.

5 Uncertainty of Demand Uncertainty of demand for the product creates the risk for the business. Changes in customer's income, taste, product price, inflation etc. create uncertainty for demand, which affects the profit of business.

6 Physical Risk Damage to the assets which are utilised in business creates physical risk. Non- functioning of machinery and equipments, damages in transit of goods create physical risks.

1 6 Profession

1 6 1 Meaning : A person with specialised skill, knowledge, training and professional education renders services and in return receives fees, it is called profession. A professional has to obtain the membership of the respective professional association. He has to obey the established code of conduct of association e.g. Chartered Accountant has to have professional qualification of C.A. and has to become a member of Institute of Chartered Accountants of India, Doctor, Lawyer, Solicitor, Chartered Accountant etc. are professional persons. Professional skill can also be used for employment, e.g. when a doctor accepts to render services in a hospital in return of salary, it is called employment.

1 6 2 Characteristics :

- (1) A professional has to obtain specialised knowledge, skill and professional education.
- (2) He charges fees for providing services. However, the standard of fees varies as per his skill, knowledge and experience.
- (3) The primary objective of a professional is to render service.
- (4) It is an independent activity for earning.
- (5) The professional activity has no relation with production, but it satisfies personal and business needs, e.g. a lawyer presents a case in the court on behalf of the client and in turn, charges fees.
- (6) It is essential to obey the code of conduct laid down by the respective professional association.
- (7) Monetary return remains uncertain in profession.

1 7 Employment

1 7 1 Meaning : Employment means job. It is an economic activity performed in return for a fixed salary where work is assigned as per the contract. E.g. a teacher teaching in a school or a government employee.

1 7 2 Characteristics :

- (1) Fixed salary is paid at fixed intervals in return of physical or mental work.
- (2) Certain other benefits are available in addition to the salary, e.g. medical allowance, pension etc.
- (3) To perform the assigned work as per the contract under the control of the employer.
- (4) Qualification, working hours, retirement, benefits after retirement etc. of the employee are predetermined.
- (5) Employment is a dependent activity.
- (6) Both Employer and employee are bound to follow the rules as per the contract.
- (7) No capital investment is to be made by the employee.

1 7 3 Comparison of Business, Profession and Employment :

Sr. No.	Points	Business	Profession	Employment
(1)	Nature of work	Goods and services are supplied to the customer in exchange of money	Personal and business services are rendered with discretion in return of fees.	Performing work as per the rule and contract
(2)	Qualifications	No qualification is essential	Educational qualifications, training and expertised knowledge are essential.	Qualification is required as per the nature of job
(3)	Reward or return	Return is called profit	Return is called fees	Return is called salary or wages
(4)	Capital	Capital is required as per the nature and type of business	Limited capital is required at the time of establishment	No capital is required
(5)	Risk	Uncertainty of profit and risk of loss remain in business	Risk of non-receipt of certain fees.	Less risk remains as regular fixed salary is received
(6)	Code of conduct	Legal provisions are to be followed	Code of conduct is to be followed as prescribed by the respective professional association	Rules specified in the agreement are to be followed
(7)	Transfer of ownership	Transfer of ownership is possible	Transfer of ownership is not possible	No title of ownership

1 8 Classification of Business Activities

Business activities are classified into three categories : (1) Trade (2) Commerce and (3) Industry.

1 9 Trade

1 9 1 Meaning : Exchange of commodity or service in return of commodity or service OR exchange of commodity or service in return of money with the motive of profit between two persons is called trade, E.g. When you purchase a book from a shopkeeper, you pay money against the purchase of the book. Here, exchange of commodity is done in return of money. When you purchase bus ticket and travel by bus, you get exchange of service in return of money paid.

1 9 2 Characteristics :

- (1) Trade is an economic activity.
- (2) There are two parties in trade purchaser and seller.
- (3) Exchange is essential in trade.
- (4) In trade, transfer of ownership of goods and services are done.
- (5) In exchange of goods, either an amount is paid or goods are exchanged.
- (6) Trade is a continuous activity.
- (7) The value of goods or service is determined in terms of money.
- (8) Trade is a legal activity.

1 9 3 Types :

There are two types of trade. : (1) Internal trade and (2) International trade.

1 Internal Trade : Trade among different regions within the boundaries of a country is called internal trade. A trader of Ahmedabad purchases boxes of apple from Kashmir or a trader of Nagpur sends oranges to Rajkot-these are examples of internal trade.

From the viewpoint of distribution, internal trade is divided into two parts : (a) Wholesale trade and (b) Retail trade. A wholesaler purchases goods in bulk from the producer and distributes them to a retailer as per his requirement. The wholesaler is a connecting link between a producer and a retailer.

In retail trade a retailer purchases goods from wholesaler and supplies them to the consumers as per their requirement.

2 International Trade : Trade between two countries is called international trade. International trade crosses the boundaries of the country. A Japanese company selling televisions to Indian traders or Kesar Mango being sent from India to U.S.A. are examples of international trade.

International trade includes (a) Import trade (b) Export trade and (c) Re-export trade.

1 10 Commerce

1 10 1 Meaning : Commerce means trade and auxiliary services to trade. These services include the services of banking, insurance, transportation, communication, warehousing and agents. The world has become a global village from point of view of trade and its auxiliary services.

1 10 2 Characteristics :

- (1) Trade is a part of Commerce.
- (2) Commerce is an economic activity.
- (3) Auxiliary services helpful to trade are included in commerce. e.g. banking, insurance, transportation etc.
- (4) It increases time and place utility of the goods.
- (5) Auxiliary services are demand-oriented yet continuous.
- (6) If auxiliary services are available at reasonable price, goods can be supplied to customers at fair price.

1 10 3 Difference between Trade and Commerce :

Sr. No.	Points of difference	Trade	Commerce
(1)	Meaning	Exchange of goods or services in return of money	Commerce includes trade and auxiliary services to trade
(2)	Scope	Scope of trade is limited	Scope of commerce is wider. Trade is included in commerce
(3)	Parties	Both the parties of trade are mostly known to each other and are in proximity.	Both the parties may be at distant places and unknown, even though they can obtain auxiliary services

1 11 Industry

1 11 1 Meaning : A Process of converting raw material into finished goods by adding utility to satisfy human needs is called an industry, e.g. manufacturing of furniture from the wood, manufacturing of cloth from raw cotton.

Production, economic activity, change in the form of raw materials, production of different articles, utility and in addition to them the use of human labour, natural resources and machines are considered as the characteristics of Industry.

1 11 2 Classification : (1) Primary Industry (2) Secondary Industry and (3) Tertiary Industry.

1 Primary Industry : These industries are fundamental industries that are connected with sea, land and air. Production activity is relied on nature. Agriculture, animal husbandary and poultry farming are connected with land. Fisheries is connected with sea.

2 Secondary Industry : Various types of machines and technology are used. Here, the natural wealth is processed to make it consumable and is supplied to the customers. e.g. fertilizer industry, colour and chemical industry, steel industry etc.

3 Tertiary Industry : It has a wide scope. It provides help and services to primary and secondary industries and besides this, it is very near to customers. The products obtained from the primary industry and secondary industry are made more consumable for customers with different processes e.g. dairy industry, cold drinks industry, bakery industry and so on. Tertiary industry also includes the services of banking, insurance, transportation warehousing, agents, communication etc.

E.g. Production of wheat is a primary industry. Production of flour from wheat is a secondary industry. Production of bread, biscuit from flour is a tertiary industry.

What did you learn in this chapter

Economic Activity Activity carried out with the objective of economic benefit or monetary consideration.

Non-Economic Activity Activity without the objective of monetary consideration or economic earning.

Difference between Economic Activity and Non-Economic activity (1) Objective (2) Expectation (3) Type (4) Risk and Uncertainty

Types of Economic Activity (1) Business (2) Profession (3) Employment.

Business Any legal economic activity with the motive of profit

Characteristics (1) Objective of profit (2) Exchange of goods and services (3) Risk and uncertainty (4) Creation of utility (5) Continuance of activity (6) Requirement of money (7) Economic activity.

Objectives (A) Economic Objectives and (B) Social Objectives.

(A) Economic Objectives : (1) Profit (2) Maximisation of wealth (3) Other Economic Objectives.

(B) Social Objectives (1) Objective of social responsibility (2) Objective to provide opportunity of employment (3) Objective to provide quality goods and services (4) Objective to adopt fair trade practices (5) Other objectives.

Business Risks : Uncertainty of profit or risk of loss.

Two Type of Risks : (A) Natural risk (B) Man-made risk.

Causes of Business Risk : (1) Change in technology (2) Threat of substitute products (3) Competition (4) Legislation (5) Uncertainty of demand (6) Physical risk.

Profession : A person with specialised skill, knowledge, training and professional education renders services and in return receives fees, it is called profession. e.g. Chartered accountant, Doctor.

Characteristics : (1) Professional education (2) Fees in return of service (3) Primary objective is service (4) Independent activity (5) Membership of professional association (6) To obey the code of conduct (7) Uncertain Monetary Returns.

Employment : To perform economic activity as per work assigned in return of fixed salary as per the contract, Fixed salary is paid at fixed intervals in return of physical or mental work.

Comparison of Business, Profession and Employment :

(1) Nature of work (2) Qualifications (2) Reward or return (4) Capital (5) Risk (6) Code of conduct (7) Transfer of ownership.

Classification of Business Activity : (1) Trade (2) Commerce and (3) Industry.

Trade : Exchange of commodity or service in return of money means trade.

Characteristics : (1) Economic activity (2) Two parties (3) Exchange (4) Transfer of ownership (5) Consideration (6) Continuous activity (7) Value in terms of money (8) Legal Activity.

Types of Trade : (1) Internal trade and (2) International Trade. Internal trade is in within the boundries of the country. Trade between two countries means International trade.

Commerce : Commerce means trade and auxiliary services to trade. Auxiliary services include the services of banking, insurances, transportation, warehousing and agent. Trade is included in commerce.

Difference between Trade and Commerce : (1) Meaning (2) Scope (3) Parties.

Industry : Industry means production. To add utility on raw materials with different processes by which human needs can be satisfied.

Classification of Industries : (1) Primary (2) Secondary and (3) Tertiary.

Primary Industry : Fundamental industry connected with sea, land and air.

Secondary Industry : The natural wealth is processed through machine and technology to make it consumable and supply to the customers.

Tertiary Industry : The products which are obtained from the primary and secondary industry are made more consumable for customer with different processes their on.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

- (1) What is the objective of economic activity ?
(a) Service (b) Financial return (c) Love (d) Emotion
 - (2) What is necessary to continue the business ?
(a) Non-economic activity (b) Service to country (c) Profit (d) Re-export
 - (3) Which is the yard stick for the efficiency of business?
(a) Profit (b) Management (c) Production (d) Sales
 - (4) Which utility is created when finished goods are manufactured from the raw material ?
(a) Place (b) Time (c) Economic (d) Form
 - (5) With what is the objective of benefit of maximisation of wealth of business connected ?
(a) Manager (b) Employee (c) Owner (d) Customer
 - (6) What is the reward of employment ?
(a) Salary (b) Fees (c) Profit (d) Capital
 - (7) What type of activity is trade ?
(a) Economic (b) Non-economic (c) Religious (d) Social
 - (8) What is meant by production by adding utility to the natural wealth ?
(a) Trade (b) Auxiliary services (c) Commerce (d) Industry
 - (9) Which types of industries are agriculture, animal-husbandary, fisheries ?
(a) Primary (b) Secondary (c) Tertiary (d) Capital intensive
 - (10) Which type of economic activity is performed by a government servant getting salary in return of his work ?
(a) Business (b) Profession (c) Employment (d) Commerce
- Answer** (1) (b) (2) (c) (3) (a) (4) (d) (5) (c) (6) (a) 7 (a) (8) (d) (9) (a)
(10) (c)

2. Answer the following questions in one sentence each :

- (1) What is an economic activity?
- (2) Which utility is created when goods are carried out from the place of production to consumer ?
- (3) What is profession ?
- (4) What is employment ?
- (5) What is required to be a professional ?
- (6) What is trade ?
- (7) With what is primary industry connected ?
- (8) Which industry is helpful to primary industry and secondary industry ?

3. Answer the following questions in short :

- (1) Why business be called an economic activity ?
- (2) State any two characteristics of employment.
- (3) What is the objective of social responsibility of business ?

4. Answer the following questions in brief :

- (1) What is the economic and non-economic activity ? Explain with illustration.
- (2) Explain the meaning of profession and state its characteristics.
- (3) Explain the difference between trade and commerce.

5. Answer the following questions in detail :

- (1) What is business ? State the objective of business.
- (2) Explain the characteristics of business.
- (3) "Existence of business is not possible without society" Explain the statement with reference to social objectives of business.
- (4) What is business risk ? State the causes of business risk.
- (5) Distinguish between business, profession and employment.
- (6) Give the meaning of industry and state its types.

