

Class XI Business Studies

Chapter 1 Business Trade and Commerce Notes

Meaning of Business



Indigenous Banking System

Hundi as an instrument of exchange, which was prominent in the subcontinent. It involved a contract which — (i) warrant the payment of money, the promise or order which is unconditional (ii) 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
- Comprises of Commission agent, broker, distributor
- Foreign Trade were financed by loans.
- Later with emergence of credit transaction, exports exceeded import and benefited indigenous banking system
- Commercial bank and industrial bank evolved to finance trade and commerce
- Agricultural bank evolved to provide short term and long term finance to agriculturist

Maritime Trade

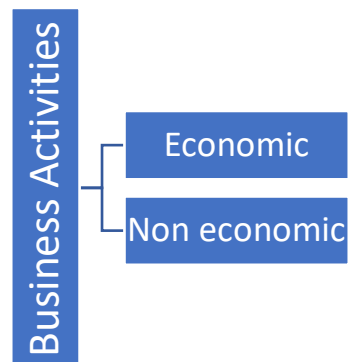
- Trade maintained by means of sea is referred to as maritime trade.
- Maritime trade was another important branch of global trade network.
- Malabar Coast, on which Muziris is situated. Pepper was particularly valued in the Roman Empire and was known as 'Black Gold'.
- It was in the search for an alternate route to India for spices that led to the discovery of America by Columbus in the closing years of 15th 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 the Middle East, as well as, pepper, diamonds, pearls and cotton from India.
- On the Coromandel Coast, Pulicat was a major port in the 17th century. Textiles were the principal export from Pulicat to Southeast Asia.

Merchant Corporation

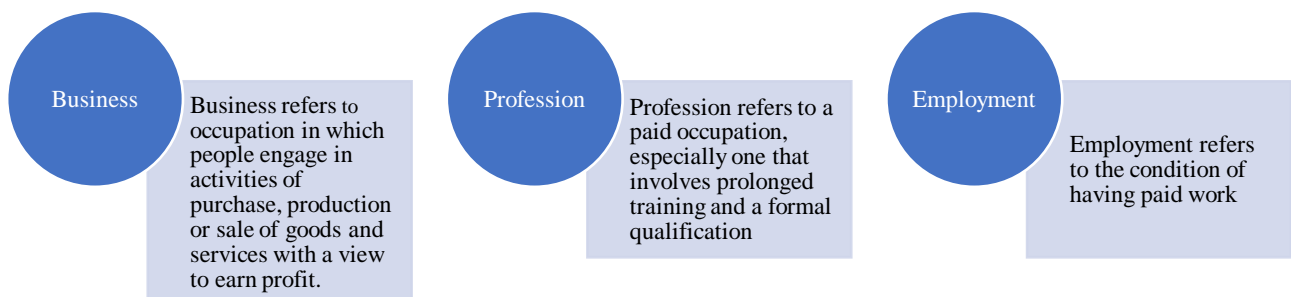
- Formed to protect the interest of traders
- Framed their own rules of membership and code of conduct which kings also accepted
- Trade and industrial taxes were major source of revenue
- The chief directly deal with king, tax collector and settle market toll on behalf of merchant at fixed sum of money.

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
- Mithila-Traded at ports on 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 all important marts
- Kaveripatta-Trade of perfumes, cosmetics, scent, silk, wool, cotton, corals, pearls, gold, precious stone, ship building
- Tamralipti-Greatest port connected by both sea and land.



Economic activities divided into following:



Comparison between Business Profession and Employment:

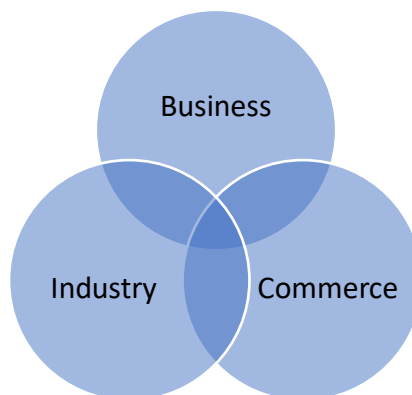
Basic	Business	Profession	Employment
Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
Nature of work	Provision of goods and services to the public	Rendering of personalised, expert services	Performing work as per service contract or rules of service
Qualification	No minimum qualification is necessary	Qualifications, expertise and training in specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer
Reward or return	Profit earned	Professional fee	Salary or wages
Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital Required
Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be Followed	Norms of behaviour laid down by the employer are to be followed
Example	Shop, factory	Legal, medical profession, Chartered accountancy	Jobs in banks, insurance companies, government departments

Characteristics of Business:



1. **Production or procurement of goods and services:**
 - Enterprise either manufactures the goods it deals in or acquires them from producers, to be further sold to consumers or users
 - Goods may consist of consumable items of daily use or capital goods
 - Services may include facilities offered to consumers, business firms and organisations
2. **Sale or exchange of goods and services**
 - business involves transfer or exchange of goods and services for value.
 - Cooking food at home for the family is not business but cooking food and selling it to others in a restaurant is business.
3. **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
4. **Profit earning**
 - No business can survive for long without profit.
 - That is why, businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.
5. **Uncertainty of return**
 - lack of knowledge relating to the amount of money that the business is going to earn in a given period
 - there is always a possibility of losses being incurred, despite the best efforts put into the business.
6. **Element of risk**
 - uncertainty associated with an exposure to loss.
 - It is caused by some unfavorable or undesirable event

Classification of Business Activities



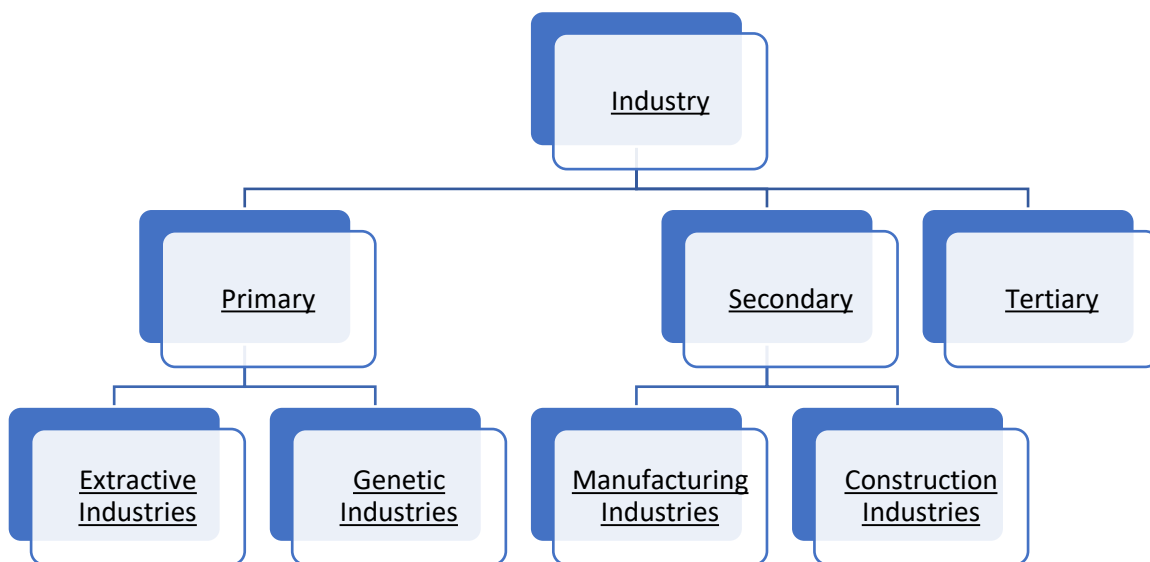
Business Activities are classified into:

1. Business- Business is the activity of making one's living or making money by producing or buying and selling products (goods and services)

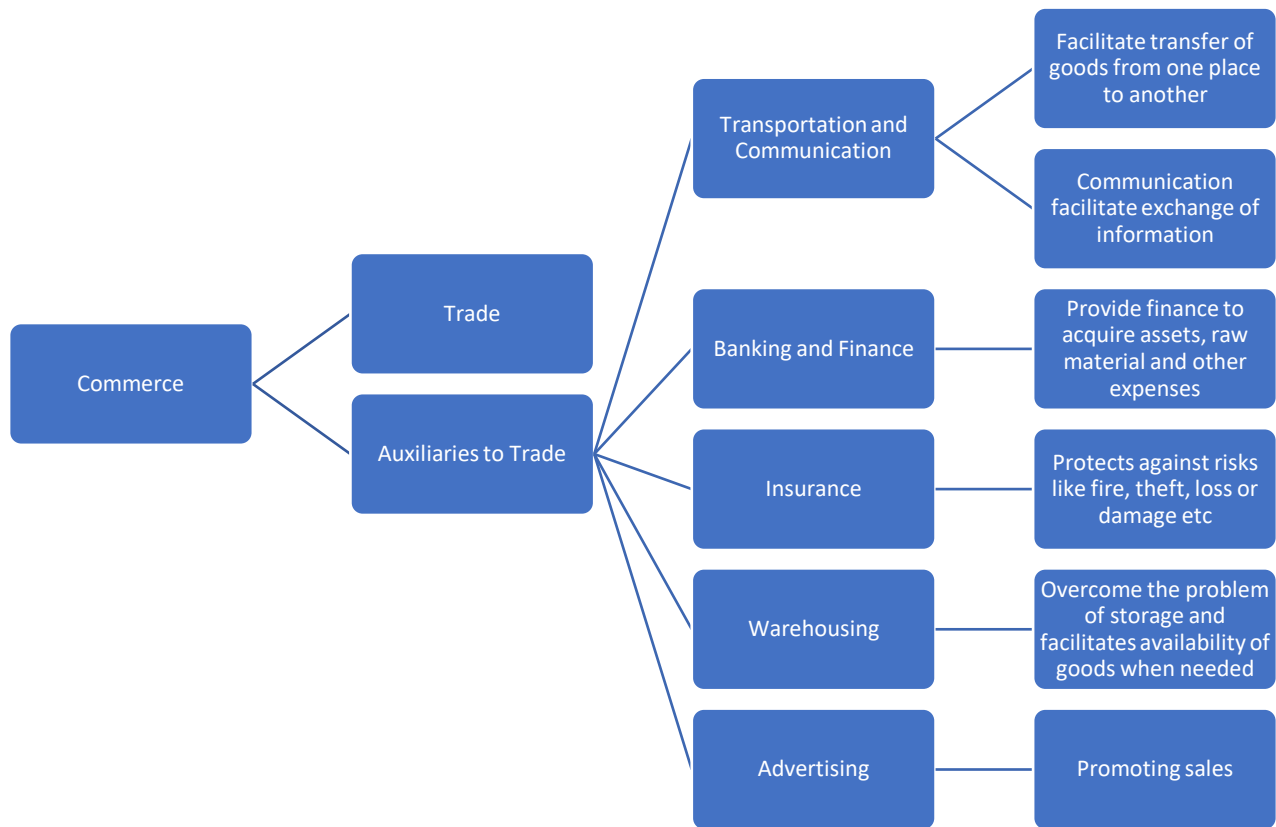
2. Industry- An industry is a group of manufacturers or businesses that produce a particular kind of goods or services

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

Industry



Primary	Secondary	Tertiary
<ul style="list-style-type: none"> • activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc • divided as follows: <ul style="list-style-type: none"> • Extractive Industries: extract or draw products from natural sources • Genetic Industries: engaged in breeding plants and animals for their use in further reproduction 	<ul style="list-style-type: none"> • These industries process materials to produce goods for final consumption or for further processing by other industrial units. • divided as follows <ul style="list-style-type: none"> • Manufacturing Industries: engaged in producing goods through processing of raw materials and, thus, creating form utilities • Construction Industries: involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals 	<ul style="list-style-type: none"> • These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. • These industries provide service facilities



Objective of Business

Market standing	<ul style="list-style-type: none"> • position of an enterprise in relation to its competitors
Innovation	<ul style="list-style-type: none"> • introduction of new ideas or methods in the way something is done or made.
Productivity	<ul style="list-style-type: none"> • ascertained by comparing the value of output with the value of inputs
Physical and financial resources	<ul style="list-style-type: none"> • funds to be able to produce and supply goods and services to its customers
Earning profits	<ul style="list-style-type: none"> • earn a reasonable profit which is so important for its survival and growth.

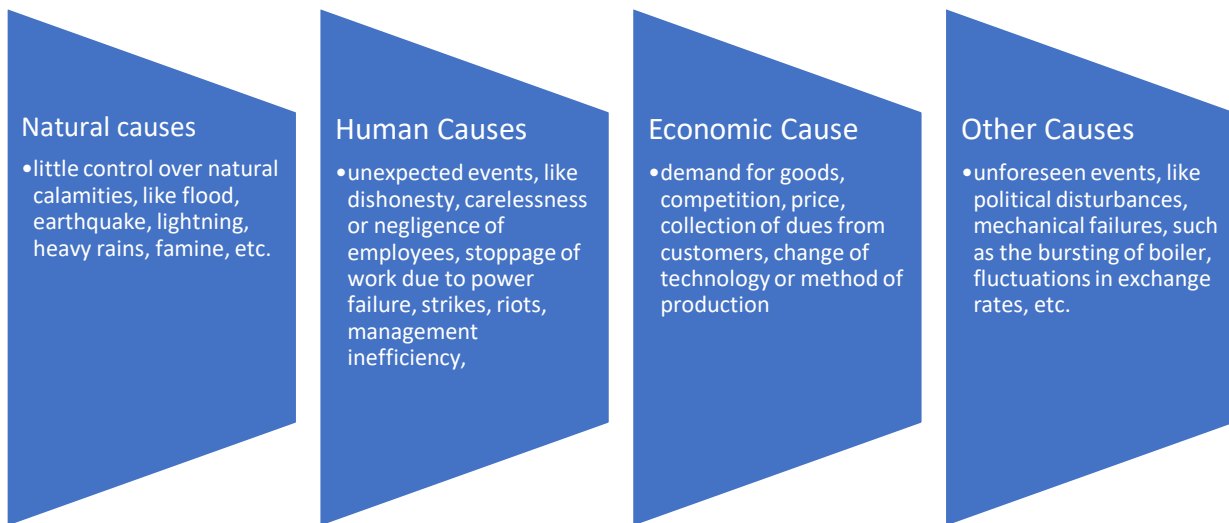
Business Risks

- Refers to possibility of inadequate profits or even losses due to uncertainties or unexpected events

Nature of Business Risk

- Arises due to uncertainties
- Essential part of business
- Degree of risk depends on the nature and size of business
- Profit is reward for risk taking

Causes of Business Risks



Factors considered while starting the business

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