

Revision Notes for CBSE Class 11 Business Studies Chapter 1 (Business, Trade and Commerce)

What is Business?

It is an economic activity that deals with buying and selling of goods and services to fulfill the needs of people and drive profit out of it. It is an umbrella under which multiple economic activities such as manufacturing, production, transportation comes at play. In a nutshell, it comprises of commerce, industry and trade.

What are the Characteristics of Business

- An economic activity
- Production or Procurement of goods and services
- Sale or exchange of goods and services
- Dealings in goods and services on a regular basis
- Profit earning
- Uncertainty of return
- Element of risk

Difference between Business, Profession and Employment

Business	Profession	Employment
A business is established through entrepreneur's decision and other legal formalities	Profession is established through membership of a professional body and certificate of practise	It is established through appointment letter and service agreement
Provision of goods and services to the public	Personal, expert services are delivered	Work has to be performed as per service agreement or rules of service
No minimum qualification is required	Qualification, training and expertise is required as demanded by the professional body	Qualification and training is required, as demanded by the employer
Profit earned in a business acts as source of income	Professional fee is the source of income	Salary or wage system
Heavy capital investment	Capital required as per need	No capital required
High risk	Can be at risk sometimes	No risk, since the wage is fixed
Eg: Shop, factory	Eg: CA, legal services	Eg: Banks, government departments

Classification of business activities

Business activities can be classified into two broad categories:

1. **Industry-** It involves in the activity of converting resources into useful goods. Generally requires technical skills and heavy equipment. It can be further divided into three types. They are primary, secondary and tertiary.

a) **Primary Industry-** Activities concerning extraction and production of natural resources and reproduction and development of living organisms, fall under primary industries. Sub-types of such an industry are as follows:

- **Extractive industries-** These industries extract or draw products from natural sources which are then used in manufacturing of several other goods. Examples: Farming, Mining, Lumbering
- **Genetic industries-** These industries breed plants and animals for further reproduction. Examples: poultry farming, cattle breeding

b) **Secondary Industry-** They use goods extracted from primary sector. Their sub-types are:

- **Manufacturing industries-** These industries produce goods by using raw materials extracted from primary industries. There are four different types of manufacturing industries, based on their methods of operation and production. They are: Analytical industry- they analyse materials

and refine them, like oil refineries. Synthetical industries where they use different materials to form a product- cement. Processing industries, which involves successive stages for manufacture of the final product- sugar. Assembling industries, they assemble different materials to form a product- cars, mobile phones.

- **Construction industries**-These industries are involved in the process of construction. Example: Architecture, Engineering

c) **Tertiary Industry**- They provide support to primary and secondary industries. Example: Transportation, Communication, Warehousing etc.

2. **Commerce**- Commerce provides the link between producers and consumers for free flow of goods and services. Two types of activities are involved in commerce. They are: Trade and auxiliaries of trade. Trade is the process of buying and selling of goods and services. Auxiliaries of trade are important functions that assist the process of trade. For example: Transportation, Communication etc.

Auxiliaries to trade

- Transport and Communication
- Banking and Finance
- Insurance
- Warehousing
- Advertising and Public Relations

Objectives of Business

- Market Standing
- Innovation
- Productivity
- Physical and Financial Resources
- Earning profits
- Social Responsibility

What is Business Risk?

Business risk refers to possibility of inadequate risks or even losses due to uncertainties or unexpected events. For example: demand might change as per decline in taste or change in preferences of students.

Nature of business risks

- Risk is an essential part of business
- Business risks arise due to uncertainties
- Degree of risk depends mainly upon the nature and size of business
- Profit is the reward for risk taking

Causes of business risks

- Natural causes
- Human causes
- Economic causes
- Other causes

Basic causes for Starting of a business

- Selection of type of business
- Size of business
- Location of business enterprise
- Financing the proposition
- Physical facilities
- Competent and committed work force
- Tax Planning
- Launching the enterprise