01

CHAPTER

Nature, Purpose and Scope of Business

Business Administration / OCM - Class 11

Complete Concept Notes | Simple Explanations | Examples | Exam Preparation

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Learn the Concept. Understand the Logic. Write Better Answers.

Chapter at a Glance

This chapter builds the foundation of Business Administration. It starts by separating activities done for economic gain from activities done for personal or social motives. It then explains the three major economic activities - business, profession and employment - before moving to trade, commerce and industry. The chapter also introduces business objectives, business risk and the classification of business activities.

Chapter	Nature, Purpose and Scope of Business
Core learning	Economic and non-economic activities; business; profession; employment; trade; commerce; industry
Important terminology	Profit, economic activity, utility, risk, profession, employment, trade, commerce, industry
Exam focus	Definitions, characteristics, objectives, risk causes, comparisons and classifications

Chapter Roadmap

Economic vs Non-Economic → **Business / Profession / Employment** → **Business Objectives & Risks** → **Trade & Commerce** → **Industry**

SOURCE ALIGNMENT

These notes follow the topic sequence and chapter structure of the official GSEB Standard 11 Organisation of Commerce and Management textbook, Chapter 1. Explanations and examples are rewritten in simple, original language for easier learning.

After studying this chapter, you will be able to:

- explain the meaning of economic and non-economic activities with suitable examples;
- distinguish between economic and non-economic activities on clear bases;
- identify business, profession and employment as major forms of economic activity;
- explain the meaning, characteristics and objectives of business;
- understand business risk, its types and major causes;
- explain profession and employment and compare them with business;
- describe trade and its types, and explain the meaning and characteristics of commerce;
- classify industry into primary, secondary and tertiary categories and understand their relationship;
- write structured GSEB-style answers with correct keywords and examples.

1.1 Economic Activity

Meaning: An economic activity is an activity undertaken with the intention of obtaining an economic benefit or monetary return. The return may appear as profit, salary, fees, rent, interest or another measurable economic gain.

In simple words: If a person performs an activity mainly to earn money or receive an economic benefit, it is an economic activity.

Economic activity is central to business life because production, trade, services and employment all involve some form of economic consideration. The person performing the activity normally expects a measurable return for the time, effort, skill, capital or resources used.

Examples

- Doctor: A doctor provides medical services and receives professional fees.
- Teacher employed by a school: The teacher performs assigned work and receives salary.
- Factory owner: The owner produces goods and aims to earn profit.
- House owner: Letting a house to a tenant in return for rent is an economic activity.
- Shopkeeper: Selling goods regularly to customers for profit is an economic activity.

SMIT SIR'S NOTE

Do not identify an activity only by looking at what is being done. Look at the motive and return. Teaching can be economic when a teacher earns salary, but teaching a younger sibling at home without any economic motive is non-economic.

EXAM IMPORTANT

Use the keywords economic benefit, monetary return and consideration in a definition-based answer. These words show that you understand why the activity is called economic.

1.2 Non-Economic Activity

Meaning: A non-economic activity is performed without the objective of earning money or obtaining an economic gain. Such activities are usually motivated by love, affection, social service, duty, sympathy, patriotism or personal satisfaction.

In simple words: The person does the activity because they want to help, care, serve or fulfil a personal/social duty - not because they expect payment or profit.

Examples

- A mother caring for her child without expecting payment.
- A volunteer helping people during a natural disaster.
- A student helping a friend understand a lesson without charging fees.
- A person participating in community service only for social welfare.
- Family members helping one another out of love and responsibility.

REMEMBER THIS

The same physical activity can be economic or non-economic depending on the motive. Motive decides the category.

1.3 Economic Activity vs Non-Economic Activity

Students often confuse these two because both can involve effort and service. The easiest method is to compare the objective, expected return, recognised types and risk/uncertainty.

Basis	Economic Activity	Non-Economic Activity
1. Objective	To obtain economic benefit or monetary return.	To serve, help or satisfy personal/social motives rather than earn money.
2. Expectation	Profit, salary, fees, rent or wealth may be expected.	Service, affection, duty or social welfare is the main expectation.
3. Types	Business, profession and employment are the major forms.	The chapter does not classify these into formal economic types.
4. Risk and uncertainty	Economic activities may involve financial risk or uncertainty of return.	There is generally no financial return at stake, so business-type risk is absent.

EASY WAY TO REMEMBER

Ask one question: "Is the main purpose to earn an economic return?" If yes, it is economic. If the main purpose is love, duty, service or personal satisfaction, it is non-economic.

1.4 Types of Economic Activity

The chapter recognises three major forms of economic activity: Business, Profession and Employment. They all provide an economic return, but the nature of work, risk, qualification and reward are different.

BUSINESS	PROFESSION	EMPLOYMENT
Profit from legal business activity	Fees for specialised professional service	Salary/wages for work under an employer

Before comparing them, study each form separately.

1.5 Business

1.5.1 Meaning and Definition

The word business is associated with being "busy" in an economic activity. In this chapter, business is understood as a legal economic activity carried on with a profit motive. A person may produce goods, purchase and sell goods, or provide services, but the activity becomes business only when it is carried on as an economic activity with continuity and a profit objective.

IN SIMPLE WORDS

Business means regularly doing a legal economic activity - such as producing, buying, selling or providing services - with the intention of earning profit.

Business is wider than simply "selling goods". A service provider can also run a business. For example, a transport company, courier company, restaurant, repair centre or software service can all operate as businesses if they are carried on regularly for profit.

KEY TERM - PROFIT MOTIVE

Profit motive means the intention to earn a surplus after meeting the costs of business. A business may face loss, but the intention is still to earn profit.

1.5.2 Characteristics of Business

1. Objective of Profit

Meaning: Profit is a basic objective of business.

Explanation: A business attempts to earn an excess of revenue over cost. Profit rewards the owner for effort, capital, decision-making and risk. A business may temporarily earn low profit or even incur loss, but its economic objective is to become viable and profitable over time.

Example: A stationery shop buys notebooks for resale and fixes a selling price that can cover cost and provide a reasonable margin.

Exam line: The primary economic objective of business is to earn profit.

2. Exchange of Goods and Services

Meaning: Business involves exchange between two or more parties.

Explanation: Goods or services are transferred from a seller or provider to a buyer or user for consideration. Business therefore requires a transaction - it is not merely producing something for personal use. Both tangible goods and intangible services can be exchanged.

Example: A bakery sells bread to customers; a courier company provides delivery service for a charge.

Exam line: Business involves the exchange of goods or services for consideration.

3. Risk and Uncertainty

Meaning: Business returns are not fully certain.

Explanation: Demand can change, employees may leave, technology can change, competitors may enter, prices may rise or goods may be damaged. Because future conditions cannot be predicted perfectly, business always contains some degree of risk and uncertainty.

Example: A clothing retailer may stock a fashion item that later goes out of demand and has to be sold at a discount.

Exam line: Business involves risk because future profit and market conditions are uncertain.

4. Creation of Utility

Meaning: Business adds usefulness to goods or services.

Explanation: Utility means the capacity of a product or service to satisfy a want. Business may create form utility by transforming raw material into finished goods, place utility by moving goods to where they are required, and time utility by storing goods until they are needed.

Example: Cotton converted into cloth creates form utility; transporting cloth to another city creates place utility; warehousing it for the festival season creates time utility.

Exam line: Business creates utility by making goods more useful in form, place or time.

5. Continuity of Activity

Meaning: Business is normally carried on repeatedly, not as a one-time casual transaction.

Explanation: A regular pattern of buying, selling, producing or providing services is expected. An occasional sale of a personal item does not normally become business because it lacks continuity.

Example: Selling your old bicycle once is not business, but operating a bicycle shop and selling bicycles regularly is business.

Exam line: Regularity and continuity are important characteristics of business.

6. Requirement of Money

Meaning: Money is needed throughout the business process.

Explanation: A business usually requires funds for purchasing materials, paying wages, rent, transport, utilities, marketing and other expenses. It also receives money from customers and manages cash throughout the operating cycle.

Example: A small food business needs money for ingredients, packaging, delivery and rent before it can earn sales revenue.

Exam line: Money is required from the beginning to the end of business operations.

7. Economic Activity

Meaning: Business is carried on for economic benefit.

Explanation: Business is not merely a hobby or charitable act. It is performed with an economic motive and aims to create income, profit, wealth or other measurable economic returns while serving customers.

Example: A person who bakes cakes only for family occasions is not necessarily in business; selling cakes regularly for profit is business.

Exam line: Business is an economic activity undertaken with an economic motive.

SMIT SIR'S NOTE

A business is not defined by profit in a single transaction. It is defined by the profit motive + continuity + exchange + economic nature. A genuine business can still suffer loss in a particular period.

1.5.3 Objectives of Business

Business objectives explain what a business tries to achieve. The chapter groups them into economic objectives and social objectives. A sound business must remain economically strong while also considering customers, employees, society and the wider environment.

A. ECONOMIC OBJECTIVES

1. Profit

Meaning: To earn a reasonable return from business operations.

Explanation: Profit is necessary for survival, continuity, growth and compensation for risk. Without sufficient profit, a business cannot replace assets, invest in development or withstand difficult periods.

Example: A retailer needs enough profit to pay rent, salaries, taxes and still retain funds for future growth.

Exam line: Profit is essential for survival, continuity and development of business.

2. Maximisation of Wealth

Meaning: To increase the long-term economic value of the business.

Explanation: Wealth maximisation looks beyond immediate profit. It focuses on building assets, goodwill, market position, customer trust and long-term earning capacity. Investments that improve future value may be important even if they do not produce instant profit.

Example: A company invests in better technology and a strong distribution network to increase long-term value and competitiveness.

Exam line: Wealth maximisation aims at increasing the long-term value of the business.

3. Other Economic Objectives

Meaning: To strengthen the business and contribute to economic development.

Explanation: Other economic objectives include efficient use of resources, adoption of modern technology, market expansion, improvement of productivity and contribution to growth. These support the long-term competitiveness of the enterprise.

Example: A manufacturer reduces waste, trains workers and adopts better machinery to improve productivity and expand into new markets.

Exam line: Efficient use of resources, technology and market expansion support long-term business growth.

B. SOCIAL OBJECTIVES

1. Social Responsibility

Meaning: To remain conscious of the interests of different groups in society.

Explanation: A business affects customers, employees, owners, creditors, government, communities and the environment. Therefore it should comply with law, protect consumer interests, treat workers fairly, avoid harmful practices and respect social welfare.

Example: A manufacturer uses safe production methods, gives correct product information and follows environmental standards.

Exam line: Business should balance its economic goals with responsibilities towards society.

2. Provide Employment Opportunities

Meaning: To create useful employment and prefer capable people for suitable jobs.

Explanation: Business contributes to society by creating jobs and income. When enterprises expand, they require more workers, supervisors, managers, service providers and support staff.

Example: A growing food processing unit recruits local workers and provides training for production and packaging jobs.

Exam line: Business contributes to society by creating employment opportunities.

3. Provide Quality Goods and Services

Meaning: To supply products and services that are reliable, safe and suitable for customers.

Explanation: Business should not treat profit as the only goal. Customers expect reasonable quality, correct quantity, fair price and dependable service. Maintaining standards builds trust and long-term relationships.

Example: A restaurant follows hygiene standards, uses good ingredients and handles customer complaints responsibly.

Exam line: Providing quality goods and services is an important social objective of business.

4. Adopt Fair Trade Practices

Meaning: To conduct business honestly and avoid exploitative or misleading practices.

Explanation: Fair trade practices include truthful advertising, correct weights and measures, genuine products, transparent prices and ethical dealing. Unfair practices may harm consumers and damage the reputation of business.

Example: A retailer clearly displays prices and does not sell duplicate goods as original branded goods.

Exam line: Fair trade practices protect consumers and build trust in business.

5. Other Social Objectives

Meaning: To contribute positively to society beyond direct sales.

Explanation: A business may build a positive identity, support welfare activities, increase useful production, cooperate with government programmes and contribute to economic development. Such actions strengthen the relationship between business and society.

Example: A company supports skill-development programmes or community welfare initiatives while continuing its commercial operations.

Exam line: A responsible business contributes to social and economic welfare in addition to earning profit.

WHY BOTH MATTER

Economic objectives keep the business financially alive. Social objectives help it remain trusted and accepted by society. A business that ignores either side may struggle in the long run.

1.5.4 Business Risks

Meaning: Business risk is the possibility that actual profit may be lower than expected or that the business may suffer a loss because future conditions are uncertain.

In simple words: A business owner makes decisions today, but the future may not happen exactly as planned. That uncertainty creates risk.

EXAM IMPORTANT

The chapter connects risk and reward: profit is treated as a reward for bearing business risk. Greater risk may create the possibility of greater return, but it can also produce greater loss.

Types of Business Risk

NATURAL RISKS	MAN-MADE RISKS
Risks arising from natural events such as flood, earthquake, drought, storm or other natural calamities.	Risks arising from human actions or human-created conditions such as theft, employee issues, technology changes, policy changes or market decisions.

1.5.5 Causes of Business Risk

1. Change in Technology

Meaning: New technology can make old methods, machines or products less useful.

Explanation: A business using outdated equipment may face higher cost or lower quality when competitors adopt efficient technology.

Example: A printing shop loses orders because customers prefer digital printing offered by newer competitors.

Exam line: Technological change can make existing methods and products obsolete.

2. Threat of Substitute Products

Meaning: Customers may switch to another product that satisfies the same need.

Explanation: Substitute products reduce demand for the original product, especially when the substitute is cheaper, easier or more attractive.

Example: Consumers may choose streaming services instead of buying DVDs, reducing demand for DVD sellers.

Exam line: Substitute products create risk by shifting customer demand.

3. Competition

Meaning: More competitors can reduce sales, market share or profit margin.

Explanation: Businesses may have to spend more on promotion, improve quality or reduce price to remain competitive. Strong competition therefore increases uncertainty about future returns.

Example: Two new coaching centres open near an existing centre and offer similar courses at lower fees.

Exam line: Competition increases business risk by putting pressure on sales and profit.

4. Legislation

Meaning: Changes in laws and government rules may affect cost and business decisions.

Explanation: Rules related to labour, environment, taxation, consumer protection, product standards or minimum wages can require changes in business operations.

Example: A new packaging regulation forces a food producer to redesign labels and packaging, increasing cost.

Exam line: Changes in law can create new compliance costs and business uncertainty.

5. Uncertainty of Demand

Meaning: Future demand for a product may rise or fall unexpectedly.

Explanation: Demand can change because of income, taste, fashion, price, inflation, season, substitutes or changing preferences. If a business produces too much and demand falls, inventory and profit may suffer.

Example: A fashion retailer orders large stock, but customer preferences shift to another style.

Exam line: Uncertain demand creates the risk of unsold stock and reduced profit.

6. Physical Risk

Meaning: Business assets can be damaged, destroyed or lost.

Explanation: Buildings, machinery, stock and goods in transit may face accident, fire, theft, breakdown or transportation damage. Such losses can interrupt operations and create financial cost.

Example: A shipment is damaged during transit and cannot be sold at full value.

Exam line: Damage to physical assets and goods creates physical risk for business.

1.6 Profession

1.6.1 Meaning

A profession is an economic activity in which a person uses specialised knowledge, skill, training and professional education to provide expert services and normally receives fees in return. Entry into many professions depends on recognised qualifications and, where applicable, membership or standards of a professional body.

IN SIMPLE WORDS

Profession = specialised knowledge + expert service + professional standards + fees.

Examples include chartered accountancy, law, architecture, medical practice and other fields where specialised expertise is essential. The key idea is that the person is paid primarily for professional knowledge and service, not for selling goods.

1.6.2 Characteristics of Profession

1. Specialised Knowledge and Training

Meaning: Professional work requires specialised knowledge, skill and education.

Explanation: A professional is expected to develop expertise through formal study, training and practice. This requirement distinguishes professional service from ordinary activity.

Example: A chartered accountant must develop specialised accounting, audit and tax knowledge.

Exam line: A profession requires specialised knowledge, skill and professional education.

2. Fees as Return

Meaning: The professional return is generally called fees.

Explanation: Fees may vary depending on the professional's expertise, experience, nature of service and complexity of the assignment. The amount is not always fixed like salary.

Example: A lawyer may charge different fees for a simple consultation and a complex court matter.

Exam line: The return from profession is generally received in the form of fees.

3. Service Motive

Meaning: The primary role is to render expert service to clients.

Explanation: Earning is important, but professional work is also based on competence, responsibility and service. The client depends on the professional's specialised judgment.

Example: A doctor examines a patient and recommends treatment using medical expertise.

Exam line: Rendering specialised service is a primary feature of profession.

4. Independent Activity

Meaning: A professional commonly exercises independent judgment.

Explanation: The professional is not necessarily under day-to-day control of an employer while serving clients. The work involves personal skill, judgment and responsibility.

Example: An independent architect prepares a design and advises a client based on professional expertise.

Exam line: Profession is generally an independent economic activity.

5. Satisfies Personal and Business Needs

Meaning: Professional services solve specialised needs of individuals and organisations.

Explanation: Profession does not necessarily involve production of goods; it provides expert assistance. Businesses may require legal, accounting, technical or advisory services.

Example: A company hires a legal professional to review a contract before signing it.

Exam line: Professional services satisfy specialised personal and business needs.

6. Code of Conduct

Meaning: Professionals are expected to follow ethical and professional rules.

Explanation: Many professions prescribe standards relating to integrity, confidentiality, competence and conduct. Following such rules protects clients and maintains trust in the profession.

Example: An accountant must maintain professional confidentiality and avoid misleading certification.

Exam line: Professionals are required to observe the prescribed code of conduct.

7. Uncertain Monetary Return

Meaning: Professional income may vary.

Explanation: A professional may not receive a fixed amount every month because the number and value of assignments can change. Therefore monetary return is less certain than a fixed salary.

Example: A self-employed consultant may receive several assignments in one month and fewer in another.

Exam line: The monetary return from profession may remain uncertain.

1.7 Employment

1.7.1 Meaning

Employment means performing assigned work for an employer according to agreed rules or a contract in return for salary or wages. It is an economic activity because the employee receives monetary compensation for work.

IN SIMPLE WORDS

Employment = work under an employer + agreed duties + salary/wages + rules/contract.

1.7.2 Characteristics of Employment

1. Fixed Salary or Wages

Meaning: The employee normally receives a fixed or agreed return for work.

Explanation: Payment may be monthly salary, daily wage or another agreed form. Compared with business profit, this return is usually more predictable.

Example: A school teacher receives a monthly salary for teaching assigned classes.

Exam line: The return from employment is salary or wages.

2. Additional Benefits

Meaning: Employees may receive benefits in addition to salary.

Explanation: Depending on the organisation and employment terms, benefits may include leave, medical support, pension, allowance or other facilities.

Example: An employee may receive paid leave and medical benefits along with salary.

Exam line: Employment may provide benefits in addition to salary or wages.

3. Work According to Contract and Employer Direction

Meaning: Employees perform assigned work under the employer's authority.

Explanation: Duties, reporting, working methods and responsibilities are normally determined by organisational rules or the employment agreement.

Example: A bank employee follows assigned duties, office timings and reporting rules.

Exam line: Employment is performed under the direction and control of the employer.

4. Service Conditions are Determined

Meaning: Qualification, working hours, retirement rules and benefits may be prescribed.

Explanation: Unlike an independent business owner, the employee works within a defined organisational structure. Conditions of service may be decided by policy, contract or law.

Example: A government employee follows prescribed recruitment qualifications and retirement rules.

Exam line: Conditions of employment are determined by the employer, contract and applicable rules.

5. Dependent Activity

Meaning: Employment depends on an employer-employee relationship.

Explanation: The employee does not independently decide the entire nature of the organisation's operations. Work is performed within the employer's system.

Example: A sales executive works according to the company's sales territory, targets and reporting process.

Exam line: Employment is a dependent economic activity.

6. Rules Bind Both Parties

Meaning: Employer and employee are bound by agreed terms.

Explanation: The employee must follow duties and conduct rules; the employer must provide agreed compensation and conditions. The relationship is structured by rules or contract.

Example: An employee must maintain attendance, while the employer must pay agreed salary.

Exam line: Both employer and employee are bound by the terms of employment.

7. No Capital Investment by Employee

Meaning: The employee generally does not invest capital in the employer's business merely to hold the job.

Explanation: An employee contributes labour, time, knowledge or skill. The capital risk of the business is normally borne by the owner, not by the employee.

Example: A receptionist does not need to invest money in the hotel to receive salary for the job.

Exam line: Employment does not require capital investment by the employee.

1.7.3 Comparison of Business, Profession and Employment

Basis	Business	Profession	Employment
Nature of work	Production / purchase / sale of goods and services for economic gain.	Specialised personal service using expert knowledge and discretion.	Assigned work performed according to organisational rules and contract.
Qualification	No single universal professional qualification is essential for all businesses.	Specialised education, training and expertise are essential.	Qualification depends on the nature and requirements of the job.
Reward / return	Profit.	Fees.	Salary or wages.
Capital	Capital is generally required according to the nature and size of business.	Limited capital may be required to establish professional practice.	No business capital investment is required from the employee.
Risk	Profit and loss are uncertain; business risk can be high.	Income can vary; some professional risk remains.	Financial risk is relatively lower because regular compensation is agreed.
Code / rules	Business must follow law and relevant business rules.	Professional code of conduct and ethical standards apply.	Service rules and employment agreement apply.
Transfer of ownership	Business ownership may be transferred subject to law and form of organisation.	Professional ownership/status is personal and generally not transferable like business property.	The employee has no ownership title to transfer merely because of employment.

EASY WAY TO REMEMBER

Business -> Profit | Profession -> Fees | Employment -> Salary/Wages. Then compare risk, qualification, independence and capital.

1.8 Classification of Business Activities

The textbook groups business activities in this chapter into three broad areas: Trade, Commerce and Industry. Industry is concerned mainly with production or processing, trade with exchange, and commerce with trade plus the supporting services that make exchange possible.

INDUSTRY	TRADE	COMMERCE
Production / processing / creation of utility	Exchange of goods or services	Trade plus auxiliary services such as banking, insurance, transport and warehousing

BIG PICTURE

Industry creates or processes goods, trade exchanges them, and commerce supports the movement and exchange through services. Together they explain how goods move from production towards the user.

1.9 Trade

1.9.1 Meaning

Trade means the exchange of goods or services between parties for money or other consideration. It connects those who have goods or services with those who need them. Trade is therefore an exchange activity rather than a production activity.

A purchase from a shop, sale of goods by a wholesaler, sale by a retailer and exchange between countries are all forms of trade when they are carried out as economic and legal activities.

1.9.2 Characteristics of Trade

1. Economic Activity

Meaning: Trade is carried on for economic benefit and forms part of business activity.

Explanation: A trader expects income or profit from exchange.

Example: A wholesaler purchases goods to resell them at a margin.

Exam line: Trade is an economic activity involving exchange for economic gain.

2. Two Parties

Meaning: Trade requires at least a buyer and a seller.

Explanation: Exchange cannot occur unless one party offers and another party accepts goods or services.

Example: A customer buys a calculator from a stationery shop.

Exam line: Trade involves at least two parties - buyer and seller.

3. Exchange is Essential

Meaning: Trade requires actual exchange.

Explanation: Merely possessing goods is not trade. The goods or services must move from one party to another through a transaction.

Example: A producer transfers goods to a wholesaler in return for payment.

Exam line: Exchange is the essential element of trade.

4. Transfer in Transaction

Meaning: The transaction involves transfer of goods/services and the related right to use or own them.

Explanation: In goods, ownership generally passes from seller to buyer. In services, the customer receives the agreed service or benefit.

Example: A buyer pays for a phone and receives ownership of it.

Exam line: Trade results in transfer through exchange.

5. Consideration is Paid

Meaning: Money or another agreed consideration is given in exchange.

Explanation: Modern trade normally uses money as the measure of value, although exchange can theoretically occur against other goods or services.

Example: A customer pays Rs. 500 for a product.

Exam line: Trade involves consideration in return for goods or services.

6. Continuity

Meaning: Trade is normally carried on regularly as part of business.

Explanation: Repeated buying and selling differentiates a trader from a person making an occasional personal sale.

Example: A retailer sells grocery items to customers every day.

Exam line: Regularity and continuity are important features of trade.

7. Value Measured in Money

Meaning: Goods and services are usually valued in monetary terms.

Explanation: Money provides a common measure that makes pricing and exchange convenient.

Example: A book is priced at Rs. 300.

Exam line: The value of goods and services in trade is expressed in terms of money.

8. Legal Activity

Meaning: Trade must be lawful.

Explanation: Business activity should comply with the law. Illegal exchange cannot be treated as legitimate business trade.

Example: A licensed shop sells lawful products and issues proper bills.

Exam line: Trade must be a legal economic activity.

1.9.3 Types of Trade

Trade is broadly divided into Internal Trade and International Trade.

1. INTERNAL TRADE

Trade carried on within the boundaries of one country is internal trade. It includes wholesale trade and retail trade.

Wholesale Trade: A wholesaler purchases goods in large quantities from producers and supplies them to retailers or other business buyers. The wholesaler helps bridge the gap between large-scale production and dispersed market demand.

Retail Trade: A retailer sells goods in smaller quantities to final consumers. The retailer is the customer-facing link in the distribution chain and helps make goods available according to consumer needs.

TEXTBOOK CLARIFICATION

The chapter presents wholesale as the link from producer to retailer. In practical distribution, retail trade is the stage where goods are supplied in smaller quantities to final consumers.

2. INTERNATIONAL TRADE

Trade between parties located in different countries is international trade. The chapter includes Import Trade, Export Trade and Re-export Trade.

Import Trade: Purchasing goods or services from another country for use or sale in the home country.

Export Trade: Selling domestic goods or services to buyers in another country.

Re-export Trade: Importing goods from one country and exporting them again to another country, usually with limited or no substantial transformation.

1.10 Commerce

1.10.1 Meaning

Commerce includes trade and the auxiliary services that support trade. These services help remove obstacles relating to finance, risk, place, time, information and distribution. The chapter mentions services such as banking, insurance, transportation, communication, warehousing and agency support.

IN SIMPLE WORDS
Trade is the actual exchange. Commerce is the wider system that includes trade plus the services that make exchange smooth and possible.

Why auxiliary services are needed

Obstacle	Service that helps	How it helps
Money / finance	Banking	Provides payment, deposit and credit facilities.
Risk	Insurance	Provides financial protection against specified risks.
Place	Transportation	Moves goods from producer to market or customer.
Time	Warehousing	Stores goods until they are required.
Information	Communication	Connects buyers, sellers and service providers.
Market linkage	Agents / intermediaries	Help connect parties and facilitate transactions.

1.10.2 Characteristics of Commerce

1. Trade is a Part of Commerce

Meaning: Trade forms the core exchange activity within commerce.

Explanation: Commerce includes trade but is broader because it also includes supporting services.

Example: A sale is trade; the banking, insurance and transport services around it are part of commerce.

Exam line: Trade is a part of commerce.

2. Economic Activity

Meaning: Commerce is performed to support economic exchange.

Explanation: Commercial services have economic value and help business transactions take place efficiently.

Example: A transport company charges for moving goods from factory to market.

Exam line: Commerce is an economic activity.

3. Includes Auxiliary Services

Meaning: Commerce includes services that support trade.

Explanation: Banking, insurance, transport, communication, warehousing and related services remove barriers in exchange.

Example: Insurance protects goods in transit, while warehousing stores them until sale.

Exam line: Auxiliary services are included in commerce.

4. Creates Time and Place Utility

Meaning: Commercial services make goods available at the right time and place.

Explanation: Transport creates place utility by moving goods; warehousing creates time utility by preserving goods until needed.

Example: Mangoes moved from farms to city markets create place utility; cold storage helps preserve them for later sale.

Exam line: Commerce helps create time and place utility.

5. Demand-Oriented and Continuous

Meaning: Commercial services respond to market demand and are regularly required.

Explanation: As trade continues, businesses repeatedly need banking, transport, communication and other support.

Example: An e-commerce seller continuously uses payment and delivery services as orders arrive.

Exam line: Commerce provides continuous support according to market demand.

6. Facilitates Availability at Reasonable Terms

Meaning: Commerce helps goods reach customers efficiently.

Explanation: By connecting production, finance, storage and transport, commerce supports better availability and distribution of goods to customers.

Example: Efficient logistics can reduce unnecessary delay and help products reach markets more reliably.

Exam line: Commerce facilitates the smooth supply of goods and services to customers.

1.10.3 Difference between Trade and Commerce

Basis	Trade	Commerce
Meaning	Trade refers mainly to exchange of goods or services for consideration.	Commerce includes trade plus auxiliary services that support exchange.
Scope	Narrower - mainly concerned with buying and selling/exchange.	Wider - includes trade, banking, insurance, transport, warehousing, communication and other support.
Parties / contact	Buyer and seller are the central parties to trade.	Many additional service providers can participate even when buyer and seller are far apart.

VERY IMPORTANT DIFFERENCE

Trade = Exchange. Commerce = Exchange + Support System. Write this idea clearly before giving detailed points in an exam answer.

1.11 Industry

1.11.1 Meaning

Industry refers to activities connected with production, processing and conversion. It transforms natural resources or raw materials into goods with greater usefulness, or supports production through organised activity. Industry therefore creates utility and forms the production side of business activity.

Examples include agriculture, extraction, manufacturing, processing and supporting service activities. Machinery, tools, labour, raw materials and technology are commonly used in industrial activity.

KEY IDEA

Trade exchanges goods. Industry creates or processes goods. Commerce supports exchange. Keeping these three roles separate makes the chapter much easier.

1.11.2 Classification of Industry

1. Primary Industry

Meaning: Activities closely connected with natural resources and basic production.

Examples: Agriculture, animal husbandry, poultry and similar resource-based activities.

Main role: Provides basic or natural output for further use.

2. Secondary Industry

Meaning: Activities that use machinery, technology and processing to convert raw materials into more usable goods.

Examples: Manufacturing of steel, chemicals, fertiliser, textiles and processed products.

Main role: Changes form and increases usefulness.

3. Tertiary Industry

Meaning: Activities that support primary and secondary sectors and help goods/services reach users.

Examples: Banking, insurance, transportation, warehousing, agency and communication services.

Main role: Provides supporting services and facilitates business activity.

PRIMARY	->	SECONDARY	->	TERTIARY
Basic resources / production		Processing / manufacturing		Support / services

TEXTBOOK CHAIN EXAMPLE

The chapter illustrates a progression from basic production to processing and then further business support. When revising, focus on the role: primary provides the base, secondary transforms it, tertiary supports the system.

Chapter Glossary

Term	Simple Meaning
Economic Activity	Activity performed mainly for monetary or economic benefit.
Non-Economic Activity	Activity performed for love, duty, service or personal/social satisfaction rather than economic return.
Business	Legal economic activity carried on with continuity and a profit motive.
Profit Motive	Intention to earn a surplus over business cost.
Utility	Capacity of a good or service to satisfy a want.
Form Utility	Usefulness created by changing the form of a product.
Place Utility	Usefulness created by making goods available at the required place.
Time Utility	Usefulness created by making goods available at the required time.
Business Risk	Possibility of lower profit or loss because the future is uncertain.
Profession	Economic activity based on specialised knowledge and expert service, generally in return for fees.
Employment	Work performed under an employer in return for salary or wages.
Trade	Exchange of goods or services for consideration.
Internal Trade	Trade within the boundaries of one country.
International Trade	Trade between parties in different countries.
Commerce	Trade plus auxiliary services that support trade.
Industry	Production, processing and related activities that create or increase utility.
Primary Industry	Industry connected with basic natural/resource-based production.
Secondary Industry	Industry that processes or transforms raw materials into more usable goods.
Tertiary Industry	Supporting service activities that assist primary and secondary sectors.

Common Mistakes Students Make

CHECK YOUR UNDERSTANDING

Mistake: Writing that every activity involving effort is economic.
Correction: Economic activity requires an economic or monetary motive.

CHECK YOUR UNDERSTANDING

Mistake: Assuming a business must earn profit every single time.
Correction: Business has a profit motive but may actually suffer loss.

CHECK YOUR UNDERSTANDING

Mistake: Treating a one-time sale of a personal item as business.
Correction: Business normally requires continuity and regularity.

CHECK YOUR UNDERSTANDING

Mistake: Confusing profession with employment.
Correction: Profession is based on specialised independent service and fees; employment is work under an employer for salary/wages.

CHECK YOUR UNDERSTANDING

Mistake: Writing only "buying and selling" for commerce.
Correction: Buying and selling is trade; commerce includes trade plus auxiliary services.

CHECK YOUR UNDERSTANDING

Mistake: Forgetting that business risk can be natural or man-made.
Correction: Classify the risk first, then give causes/examples.

CHECK YOUR UNDERSTANDING

Mistake: Mixing internal and international trade.
Correction: Internal trade happens within one country; international trade crosses national borders.

CHECK YOUR UNDERSTANDING

Mistake: Memorising industry types without understanding roles.
Correction: Primary = base/resource, Secondary = transformation, Tertiary = support/services.

How to Write Major Answers in the Exam

Use this structure whenever a question asks you to "explain", "state characteristics", "distinguish" or "discuss". It keeps the answer organised and helps the examiner identify your points quickly.

Explain the characteristics of business.

ANSWER STRUCTURE

Introduction: Define business in 1-2 lines.
Main body: Write numbered points - profit objective, exchange, risk and uncertainty, creation of utility, continuity, requirement of money and economic nature. Explain each in 2-3 lines.
Conclusion: Conclude that these features distinguish business from casual or non-economic activity.

SHORT MODEL ANSWER

Business is a legal economic activity carried on regularly with a profit motive. Its main characteristics are: (1) objective of profit, (2) exchange of goods and services, (3) risk and uncertainty, (4) creation of utility, (5) continuity of activity, (6) requirement of money and (7) economic nature. These features show that business is a continuous economic process involving exchange and uncertainty.

Explain the social objectives of business.

ANSWER STRUCTURE

Introduction: State that business functions within society and therefore has responsibilities beyond profit.
Main body: Explain social responsibility, employment, quality goods/services, fair trade practices and other social welfare objectives.
Conclusion: State that social objectives build trust and long-term acceptance.

SHORT MODEL ANSWER

The social objectives of business include responsibility towards different groups, creation of employment, supply of quality goods and services, adoption of fair trade practices and contribution to social welfare. A business that fulfils these objectives earns trust and supports balanced economic development.

Explain the causes of business risk.

ANSWER STRUCTURE

Introduction: Define business risk.
Main body: Explain change in technology, substitute products, competition, legislation, uncertainty of demand and physical risk with brief examples.
Conclusion: Mention that risk cannot be removed completely but can be understood and managed.

SHORT MODEL ANSWER

Business risk arises because future conditions are uncertain. Major causes are changes in technology, threat of substitute products, competition, changes in law, uncertainty of demand and physical loss or damage to assets. These factors may reduce expected profit or cause loss.

Distinguish between business, profession and employment.

ANSWER STRUCTURE

Introduction: Mention that all three are economic activities but differ in nature.
Main body: Use a table with bases such as nature of work, qualification, return, capital, risk, code/rules and transfer of ownership.
Conclusion: Summarise profit-fees-salary.

SHORT MODEL ANSWER

Business, profession and employment are all economic activities. Business is mainly undertaken for profit and involves business risk; profession is based on specialised knowledge and generally earns fees; employment means working under an employer for salary or wages. They also differ in qualification, capital requirement, independence and rules.

Distinguish between trade and commerce.

ANSWER STRUCTURE

Introduction: Define both terms briefly.
Main body: Use the bases meaning, scope and parties/services.
Conclusion: State the key relation - trade is a part of commerce.

SHORT MODEL ANSWER

Trade means exchange of goods or services, while commerce is wider and includes trade together with services such as banking, insurance, transport and warehousing. Trade mainly focuses on buyer-seller exchange, whereas commerce removes different obstacles that arise in the process of exchange.

Exam Question Bank

The questions below are designed from the chapter concepts and GSEB-style patterns. Use them after completing the notes.

A. One-Mark / Objective Practice

1. Which activity is mainly performed for monetary return?

(A) Economic activity (B) Non-economic activity (C) Personal activity (D) Recreational activity

2. Which of the following is a non-economic activity?

(A) A shopkeeper selling goods (B) A doctor charging fees (C) A mother caring for her child without payment (D) An employee receiving salary

3. Which is NOT one of the three major economic activities discussed in the chapter?

(A) Business (B) Profession (C) Employment (D) Charity

4. The main economic objective of business is:

(A) Profit (B) Love (C) Donation (D) Patriotism

5. Which utility is created when raw material is converted into a finished product?

(A) Form utility (B) Place utility (C) Time utility (D) Possession only

6. Which utility is created by transporting goods to the place where they are needed?

(A) Form (B) Place (C) Time (D) None

7. Which is an important feature of business?

(A) One-time casual sale (B) Continuity of activity (C) Absence of risk (D) No need for money

8. Profit is commonly viewed as a reward for:

(A) Charity (B) Risk bearing (C) Employment contract (D) Non-economic activity

9. Flood or earthquake is an example of:

(A) Natural risk (B) Professional risk (C) Employment risk (D) Trade discount

10. A new product satisfying the same customer need creates the risk of:

(A) Substitute products (B) Fixed salary (C) No demand uncertainty (D) No competition

11. The return from profession is generally called:

(A) Profit (B) Salary (C) Fees (D) Rent

12. The return from employment is generally:

(A) Profit (B) Salary or wages (C) Fees (D) Dividend

13. Which activity normally requires specialised knowledge and professional training?

(A) Profession (B) Casual sale (C) Non-economic activity (D) Retail only

14. Trade mainly refers to:

(A) Production only (B) Exchange of goods or services (C) Charity (D) Employment

15. Internal trade takes place:

(A) Within one country (B) Only between two continents (C) Only online (D) Only through banks

16. Buying goods from another country is called:

(A) Export (B) Import (C) Internal retail (D) Re-export only

17. Selling domestic goods to another country is called:

(A) Import (B) Export (C) Internal trade (D) Employment

18. Commerce includes:

(A) Only production (B) Only trade (C) Trade plus auxiliary services (D) Only warehousing

19. Which service mainly removes the obstacle of place?

(A) Transport (B) Insurance (C) Banking (D) Audit

20. Which service mainly creates time utility by storing goods?

(A) Warehousing (B) Banking (C) Advertising only (D) Employment

21. Which is broader in scope?

(A) Trade (B) Commerce (C) Both always identical (D) Neither

22. Primary industry is closely connected with:

(A) Basic natural/resource-based production (B) Only banking (C) Only retailing (D) Only advertising

23. Secondary industry mainly performs:

(A) Processing and transformation (B) Only charity (C) Only final consumption (D) Only salary payment

24. Tertiary industry mainly:

(A) Supports primary and secondary activities (B) Only grows crops (C) Only mines minerals (D) Only manufactures steel

25. Which statement is correct?

(A) Trade is a part of commerce (B) Commerce is only trade (C) Industry and trade mean the same (D) Employment is non-economic

MCQ Answer Key

1. A	**2. C**	**3. D**	**4. A**	**5. A**
6. B	**7. B**	**8. B**	**9. A**	**10. A**
11. C	**12. B**	**13. A**	**14. B**	**15. A**
16. B	**17. B**	**18. C**	**19. A**	**20. A**
21. B	**22. A**	**23. A**	**24. A**	**25. A**

B. Fill in the Blanks

- 1. An activity performed mainly for monetary return is called an __________ activity.
- 2. The return earned from business is called __________.
- 3. The return received by a professional is generally called __________.
- 4. The return received by an employee is salary or __________.
- 5. Transport creates __________ utility.
- 6. Warehousing mainly creates __________ utility.
- 7. Trade carried on within one country is called __________ trade.
- 8. Trade plus auxiliary services is called __________.
- 9. The possibility of lower profit or loss due to uncertainty is called business __________.
- 10. Industry that processes raw materials is called __________ industry.

Answers: 1. economic, 2. profit, 3. fees, 4. wages, 5. place, 6. time, 7. internal, 8. commerce, 9. risk, 10. secondary

C. True / False

- 1. Non-economic activity is mainly undertaken to earn profit. (False)
- 2. Business is an economic activity. (True)
- 3. A one-time sale of a personal item always becomes business. (False)
- 4. Profession generally requires specialised knowledge and training. (True)
- 5. Employment normally involves salary or wages. (True)
- 6. Trade is wider than commerce. (False)
- 7. Transport helps create place utility. (True)
- 8. Warehousing can help create time utility. (True)
- 9. Change in technology can create business risk. (True)
- 10. Tertiary industry provides supporting services. (True)

D. One-Sentence Questions

- 1. Define economic activity.
- 2. What is non-economic activity?
- 3. What is meant by business?
- 4. What is profession?
- 5. What is employment?
- 6. What is business risk?
- 7. What is trade?
- 8. What is internal trade?
- 9. What is commerce?
- 10. What is industry?
- 11. Which utility is created when goods are moved from the place of production to consumers?
- 12. Which industry mainly supports primary and secondary industries?

E. Short-Answer Questions

- 1. Why can the same activity be economic in one situation and non-economic in another?
- 2. State any four characteristics of employment.
- 3. Explain any four characteristics of profession.
- 4. Why is profit important for business?
- 5. Explain any three economic objectives of business.
- 6. Explain any three social objectives of business.
- 7. Distinguish between economic and non-economic activities.
- 8. Explain natural risk and man-made risk with examples.
- 9. State the types of internal trade and explain them briefly.
- 10. Explain import, export and re-export trade.
- 11. State the characteristics of commerce.

- 12. Explain the role of auxiliary services in commerce.

F. 3/4-Mark Questions

- 1. Explain the meaning and any five characteristics of business.
- 2. Explain the economic objectives of business.
- 3. Explain the social objectives of business.
- 4. Explain any four causes of business risk.
- 5. Distinguish between business and profession.
- 6. Distinguish between profession and employment.
- 7. Explain the characteristics of trade.
- 8. Distinguish between trade and commerce.
- 9. Explain the classification of industry.

G. Long-Answer Questions

- 1. Explain the meaning of business and discuss all its characteristics in detail with examples.
- 2. Explain the objectives of business under economic and social headings.
- 3. What is business risk? Explain its types and major causes.
- 4. Explain the meaning and characteristics of profession and employment. Then compare business, profession and employment.
- 5. Explain trade and commerce in detail, including types of trade and the difference between trade and commerce.
- 6. Explain the meaning of industry and describe primary, secondary and tertiary industries with suitable examples.

H. Application / Case-Based Questions

CASE 1

Case 1: Riya teaches her neighbour's child free of cost every Sunday because the child cannot afford tuition. In the evening, she teaches at a coaching centre and receives salary.
Question: Identify which activity is non-economic and which is economic. Give a reason for each.

CASE 2

Case 2: A local shop purchases seasonal fashion stock. A new trend becomes popular within two weeks and demand for the old design falls sharply.
Question: Identify the cause of business risk and explain it.

CASE 3

Case 3: A company moves goods from a factory to different cities and stores some of the stock until festival demand increases.
Question: Which utilities are being created? Explain.

CASE 4

Case 4: Arjun is a qualified professional who independently advises clients and charges fees. His brother works in a company and receives a fixed monthly salary.
Question: Identify the two economic activities and give two differences between them.

CASE 5

Case 5: A manufacturer sells goods through retailers. The business uses bank payments, transport, insurance and warehouse facilities.
Question: Which part is trade and which activities together form commerce? Explain.

CASE 6

Case 6: A farmer produces wheat, a processing unit converts it into flour, and transport and banking services support movement and payment.
Question: Identify the primary, secondary and tertiary activities in the case.

5-Minute Chapter Revision

THE WHOLE CHAPTER IN ONE IDEA

People perform activities for different motives. Economic activities give monetary/economic return and include business, profession and employment. Business involves regular legal exchange for profit and carries risk. Business activities include industry, trade and commerce. Trade exchanges; commerce supports exchange; industry produces/processes.

Economic vs Non-Economic

Economic -> monetary/economic benefit. Non-economic -> love, duty, service, affection or social motive. Main test = purpose/motive.

Types of Economic Activity

Business -> profit; Profession -> fees; Employment -> salary/wages.

Business Characteristics

Profit objective; exchange; risk and uncertainty; creation of utility; continuity; requirement of money; economic nature.

Business Objectives

Economic: profit, wealth maximisation, other growth/productivity goals. Social: social responsibility, employment, quality goods/services, fair trade, welfare contribution.

Business Risk

Possibility of lower profit or loss due to uncertainty. Types: natural and man-made. Causes: technology, substitutes, competition, legislation, demand uncertainty, physical risk.

Profession

Specialised knowledge; fees; service motive; independence; specialised need; code of conduct; uncertain return.

Employment

Salary/wages; benefits; employer control; defined service conditions; dependent activity; contract/rules; no capital investment by employee.

Trade

Exchange of goods/services. Internal -> wholesale and retail. International -> import, export, re-export.

Commerce

Trade + auxiliary services: banking, insurance, transport, communication, warehousing, agents. Commerce is wider than trade.

Industry

Primary -> basic/resource production. Secondary -> processing/manufacturing. Tertiary -> supporting services.

High-Value Keywords

economic benefit	monetary return	profit motive	continuity
exchange	risk and uncertainty	utility	social responsibility
specialised knowledge	fees	salary/wages	trade
auxiliary services	primary industry	secondary industry	tertiary industry

Rapid Recall - Test Yourself Without Looking Back

- 1. What single factor mainly separates economic from non-economic activity?
- 2. Name the three major economic activities.
- 3. What is the return from business, profession and employment respectively?
- 4. Name any four characteristics of business.
- 5. Name the two broad categories of business risk.
- 6. List the six major causes of business risk in this chapter.
- 7. Name the two types of internal trade.
- 8. Name the three forms of international trade.
- 9. Why is commerce wider than trade?
- 10. What is the core role of primary, secondary and tertiary industry?

MEMORY HOOK

Motive decides economic/non-economic. Profit-Fees-Salary separates business-profession-employment. Exchange means trade. Exchange + support means commerce. Base-Transform-Support remembers primary-secondary-tertiary.

ONE-PAGE MASTER REVISION SHEET

ECONOMIC ACTIVITY Money/economic return. Types: Business, Profession, Employment.	NON-ECONOMIC ACTIVITY Love, duty, service, affection, social motive.
BUSINESS Legal + economic + regular + profit motive. 7 Features: profit, exchange, risk, utility, continuity, money, economic nature.	BUSINESS OBJECTIVES Economic: profit, wealth, growth/productivity. Social: responsibility, jobs, quality, fair trade, welfare.
BUSINESS RISK Possibility of lower profit/loss. Types: natural, man-made. Causes: technology, substitutes, competition, law, demand, physical risk.	PROFESSION vs EMPLOYMENT Profession -> specialised expertise + fees. Employment -> employer control + salary/wages.
TRADE Exchange. Internal: wholesale, retail. International: import, export, re-export.	COMMERCE Trade + banking + insurance + transport + warehousing + communication + agents. Commerce is wider than trade.
INDUSTRY Primary = basic/resource production. Secondary = processing/manufacturing. Tertiary = supporting services.	EXAM MEMORY Business = Profit Profession = Fees Employment = Salary/Wages Trade = Exchange Commerce = Exchange + Support

MOST LIKELY LONG-ANSWER AREAS

Characteristics of business; objectives of business; causes of business risk; comparison of business-profession-employment; trade vs commerce; classification of industry.

Have You Mastered This Chapter?

☐ I can explain economic and non-economic activities with examples.

☐ I can distinguish economic and non-economic activities on at least four bases.

☐ I can explain all characteristics of business in my own words.

☐ I can separate economic objectives from social objectives of business.

☐ I can define business risk and explain its types and causes.

☐ I can explain profession and employment with their characteristics.

☐ I can compare business, profession and employment in a table.

☐ I can explain trade and all major types of trade.

☐ I can explain commerce and why it is wider than trade.

☐ I can classify industry into primary, secondary and tertiary.

☐ I can answer the chapter MCQs without looking at the answer key.

☐ I can write at least three long answers using headings, keywords and examples.

FINAL MESSAGE FROM SMIT SIR

Do not memorise paragraphs blindly. First understand the logic: motive -> type of activity -> nature of return -> role in business system. Once the logic is clear, the definitions, differences and classifications become much easier to remember and write.

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