

CHAPTER -1

Business, Trade and Commerce

Concept of Business

Business refers to an occupation in which people regularly engage in activities related to purchase/ production and sale of goods and services with a view to earning profit.

Characteristics of Business

1. An Economic Activity

Business is considered to be an economic activity because it is undertaken with the object of earning money.

2. Production or Procurement of Goods and Services

Every business enterprise either produces goods on its own or assembles them from producers to be sold to consumers.

3. Sale or Exchange of Goods and Services

Business involves transfer or exchange of goods and services for some consideration. Eg: cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business.

4. 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 does not constitute business. Eg: if a person sells his domestic radio,

it is not business. But if he sells radio sets regularly through a shop, it is business.

5. Profit Earning

One of the main purposes of business is to earn income by way of profit.

6. Uncertainty of Return

It is not certain as to what amount of profit will the business earn in future. There is always a possibility of losses being incurred.

7. Element of Risk

There is an element of risk in every business. No business can altogether avoid risks.

Classification of Business Activities

Business is classified into the following two categories:

- A. Industry and
- B. Commerce

Industry

Industry refers to economic activities, which are concerned with the conversion of resources into useful goods.

Industries are again classified into three:

1. Primary Industry
2. Secondary Industry and
3. Tertiary Industry

1. Primary Industry

It includes all those activities which are concerned with extraction and production of natural resources and reproduction and development of living organisms and plants. They are further sub-divided into:

a) Extractive industries

These industries are engaged in the extraction or production of products from soil, water etc. Eg: fishing, mining, hunting, farming etc.

b) Genetic Industries

These industries are engaged in producing, breeding or multiplying of certain species of animals or plants. Eg: cattle breeding, poultry farming, nurseries, forestry etc.

2. Secondary Industry

These industries process the materials extracted at the primary stage to produce goods for final consumption or for further processing. These are further subdivided into:

a) Manufacturing Industries

These are concerned with the conversion of raw materials into finished goods. Eg: cotton into textile, timber into furniture, iron ore into steel etc. These industries are divided into 4 types:

i) *Analytical Industry:*

This industry separates different elements from the same material Eg: oil refinery

ii) Synthetical Industry:

This Industry combines various ingredients into new products. Eg: cement

iii) Processing Industry:

It involves successive stages for manufacturing of finished products. Eg: sugar, paper etc.

iv) Assembling Industry:

This Industry assembles different components into a new product. Eg: computer, car, TV etc.

b) Construction Industries

These industries are engaged in the construction of roads, buildings, dams, bridges etc.

3. Tertiary Industry

These are concerned with providing support services to primary and secondary industries. Transportation, banking, insurance, warehousing, communication etc. come under this category.

Commerce

Commerce is the sum total of those activities which are engaged in the removal of hindrances of person, place and time in the exchange of commodities. Commerce includes:

- a) Trade and
- b) Auxiliaries to Trade or Aids to Trade.

Trade

Trade means buying and selling of goods. It helps the movement of goods from the producers to consumers. Trade removes the hindrance of person.

Types of Trade

1. Home trade (Internal or Domestic Trade)
2. Foreign Trade (External or International Trade)

Home trade

Home trade /internal trade or domestic Trade is concerned with buying and selling of goods and services within the geographical boundaries of a country. This is further classified into two viz., wholesale trade and retail trade.

a) Wholesale Trade

It involves buying goods from producers in large quantities and selling them to retailers in small quantities.

b) Retail Trade

It involves buying goods from wholesalers and selling them to consumers in relatively small quantities.

Foreign Trade

It consists of trade among different nations. It is further divided as follows:

a) Import Trade

If goods are purchased from a foreign country, it is called import trade.

b) Export Trade

If goods are sold to foreign countries, it is called export trade.

c) Entrepot Trade

When goods are imported from a foreign country to export them to other countries, it is called entrepot trade.

Auxiliaries to Trade (Aids to Trade)

Activities which are meant for assisting trade are known as auxiliaries to trade. Auxiliaries to trade include the flowing activities:

1. Transportation

It facilitates the movement of raw materials to the place of production and the finished goods from factories to the place of consumption. It removes the hindrance of place.

2. Banking and Finance

Business requires funds for acquiring assets, purchasing raw materials and meeting day to day expenses. Banks provide the necessary funds to business. So hindrance of finance is removed by banking.

3. Insurance

In business, there are many risks like destruction of property by fire, flood, earthquake etc. Insurance provides protection in all such cases. It removes the hindrance of risk.

4. Warehousing

Goods are not sold immediately after production. They are to be stored until they are sold. Warehousing helps the business to overcome the problem of storage. It removes the hindrance of time.

5. Advertising

It provides information about the available goods and services such as their price, uses, quality etc. It induces customers to buy particular items. It removes the hindrance of knowledge.