

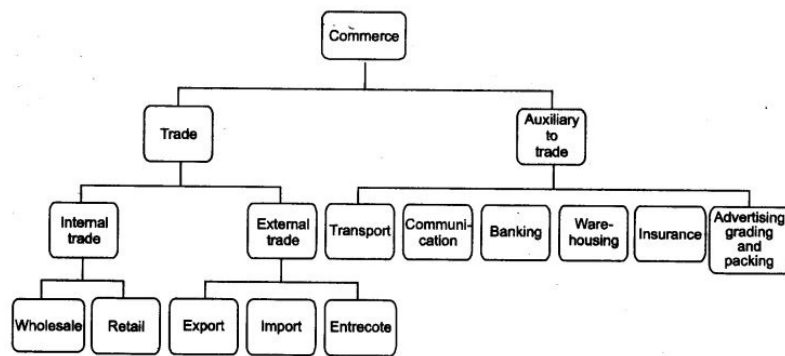


Question 4. Describe the activities relating to commerce.

Answer: Commerce refers to all, those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services. It includes trade and auxiliary to trade.

Commerce = Trade + Auxiliary to Trade

1. Trade: Trade refers to buying and selling of goods and services with the objective of earning profit. It is classified into two categories.
  - Internal Trade: It takes place within a country. Internal trade is classified into two categories retail trade and wholesale trade.
  - Retail Trade: It refers to buying of goods and services in relatively small quantities and selling them to the ultimate consumers.
    - (a) External Trade: It is done between two or more countries. External trade can be classified into three categories.
      - (b) Import Trade: If goods are purchased from another country, it is called import trade.
      - (c) Export Trade: If goods are sold to other countries, it is called export trade.
      - (d) Entrecote Trade: Where goods are imported for export to other countries e.g., Indian firm may import some goods from America and export the same goods to Nepal.
2. Auxiliaries to Trade: All those activities which help in removing various hindrances which arise in connection with the production and distribution of goods are called auxiliaries to trade. An overview of these activities is given below.
  - Transportation and Communication: The production of goods takes place at one place whereas these are demanded in different parts of the country. The obstacle of place is removed by the transport. Along with transport, communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.
  - Banking and Finance: Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.
  - Insurance: It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.
  - Warehousing: There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses.
  - Advertising: Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.



Question 5. Why does business need multiple objectives? Explain any five such objectives.

Answer: Since a business has to balance a number of needs and goals, it requires multiple objectives.

Business is dependent on many people's satisfaction whose objectives for being involved in it are different and many times conflicting. Owners want profits, employees want good working conditions and remuneration, investors want good return and consumers want good quality product. Therefore, a business needs to have multiple objectives. Some of these objectives are given below:

- Market standing: Business can survive for a longer period only if it is able to capture a big share in the market and has market standing.
- Innovation: It means developing new products and their multiple uses. Old customers can be maintained and new can be attracted by innovation only.
- Improving productivity: Every business enterprise must aim at greater productivity by making optimum use of available resources.
- Earning profit: One of the objectives of business is to earn profits on the capital invested. Every business must earn a reasonable profit to survive and grow.
- Optimum use of physical and financial resources: Every business requires physical (plant, machine, office etc) and financial resources (money or funds) to produce goods and services; the business enterprise must aim to use them efficiently.
- Workers performance and attitude: Every business enterprise must aim at improving its workers performance and creating positive attitudes towards workers. It will boost the morale of the employees.
- Social Responsibility: A business is a part of society and so it must meet the expectations of the society. It can set goals in the areas of the environmental protection, supply of desired quality of products, employment generation etc.

Question 6. Explain the concept of business risk and its causes.

Answer: The term 'business risk refers to possibility of inadequate profits or even losses due to uncertainties e.g., changes in tastes and preferences of consumers, strike, increased competition, change in Government policy etc. These are of two types: speculative and pure.

Causes of Business Risks:

1. Natural causes: The causes which are beyond human control e.g., flood, earthquake, heavy rains, famine etc.
2. Human causes: It includes carelessness or negligence of employees e.g., theft, strikes, riots, misappropriation of cash and products etc.
3. Economic causes: It is related to a chance of loss due to change in market condition e.g., fluctuations in demand and

prices, competition, change in technology etc.

4. Physical causes: Mechanical defects or failures which may also lead to losses e.g., bursting of boiler or machine, may cause death or destruction.
5. Other causes: These include unforeseen events like political disturbances, fluctuation in exchange rates etc.

Question 7. What factors are important to be considered while starting a business? Explain.

Answer: Following factors are considered while starting a new business:

1. Selecting the line of business: The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.
2. Scale or size of business: After deciding the line of business the businessman must decide whether he/she wants to set up large scale or small scale business.
3. Choice of form of business organization: The next decision must be taken is to finalise the form of business i.e., to set up sale, proprietorship, partnership or joint stock company.
4. Location of business enterprise: The entrepreneur has to decide the place where the business will be located. Before taking this decision he/she must find out availability of raw materials, power, labour, banking, transportation etc.
5. Financial requirement: The businessman must analyse the amount of capital he/ she might require to buy for fixed assets and for working assets). Proper financial planning must be done to determine the amount of funds needed.
6. Physical facilities: It includes machinery, equipment building etc. This decision depends upon the size, scale and type of business activities he/she wants to carry on.
7. Plant layout: Showing the physical arrangement of machines and equipment needed to manufacture a product.
8. Competent and committed workforce: The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perform various activities.
9. Tax planning: The entrepreneur must try to analyse the types of taxes, because there are a number of tax laws in the country which affect the functioning of business.
10. Setting up the enterprise: After analysing the above mentioned points carefully the entrepreneur can start the business which would mean mobilising various resources and completing legal formalities.

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