

## **UNIT-1**

### **NATURE AND SCOPE OF BUSINESS**

#### **QUESTIONS**

- 1. What is Human Activity?**
- 2. What is Economic Activity?**
- 3. What is Non Economic Activity?**
- 4. Difference between Economic Activity and Non Economic activity.**
- 5. Explain the different types of Business Activities.**
- 6. What is Business? Explain the features of business.**
- 7. Distinction between business, profession and employment.**
- 8. Explain the economic objectives of business.**
- 9. Explain the various non-economic objectives of business.**
- 10. What is Business Risk? What are the types of risk.**
- 11. Explain the nature of Business Risk?**
- 12. Explain the causes of Business Risk?**
- 13. What are the various methods of dealing with business risks?**
- 14. Explain the various factors to be considered for starting a business?**

#### **ANSWERS**

- 1. What is Human Activity?**

Ans- Human Activity are those activities which are continuously performed by human such as playing cricket, washing clothes, driving buses etc.

- 2. What is Economic Activity?**

Ans- All activities undertaken with the object of earning money are called economic activities. Ex- production of goods, buying and selling of goods, rendering specialized service such as doctors, lawyers etc.

### **3. What is Non Economic Activity? Give Example**

Ans- Non Economic Activity are those activities which are inspired by many motives other than earning money. Ex- a housewife working at wife, charity to the poor etc.

### **4. Difference between Economic Activity and Non Economic activity.**

Ans-

Sl No.	Points	Economic Activity	Non Economic Activity
1	Meaning	Activities undertaken with the object of earning money are called economic activities	Non Economic Activities are those activities which are inspired by many motives other than earning money.
2	Examples	Production of goods, buying and selling of goods, rendering specialized service such as doctors, lawyers etc	A housewife working at wife, charity to the poor etc
3	Satisfaction-	Economic needs of the people are satisfied.	Social and Psychological needs of the people are satisfied.

### **5. Explain the different types of Economic Activities.**

Ans- The different types of economic activities are as follows-

**I. Business-**Business refers to activities concerned with the production and exchange of goods and services with the aim of earning profits by regular dealings.

**II. Profession-**A profession is an occupation which involves the rendering of personal services of a specialized nature. The services of doctor, teacher, lawyers etc

are a part of professional service provided for a professional fee charged from clients.

**III. Employment-**When a person undertakes to render personal service under an agreement of employment, he/she is said to be in service or employment.

**6. What is Business? Explain the features of business.**

**Ans-** Business refers to activities concerned with the production and exchange of goods and services with the aim of earning profits by regular dealings.

According to L.H. Elanay, “Business may be defined as human activities directed towards providing or acquiring wealth through buying and selling of goods.”

**The features of business are**

**1. An economic activity:** Business is considered to be an economic activity because it is undertaken with the objective of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason.

**2. Production and procurement of goods and services:** Before goods are offered to people for consumption, they must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or acquires them from producers to be further sold to consumers.

**3. Sale or exchange of goods and services for the satisfaction of human needs:** Directly or indirectly, business involves transfer or exchange of goods and services for value.

**4. Dealings in goods and services on a regular basis:** Business involves dealing in goods or services on a regular basis. One single transaction of sale or purchase does not constitute business.

**5. Profit earning:** One of the main purposes of business is to earn income by way of profit. No business can survive for long without earning profit.

## 7. Distinction between business, profession and employment.

Ans-

Sl No.	Points	Business	Profession	Employment
1	Meaning	Business refers to activities concerned with the production and exchange of goods and services with the aim of earning profits by regular dealings.	A profession is an occupation which involves the rendering of personal services of a specialized nature. The services of doctor, teacher, lawyers etc are a part of professional service provided for a professional fee charged from clients.	When a person undertakes to render personal service under an agreement of employment, he/she is said to be in service or employment.
2	Nature of work	Production and Exchange of goods and services	Providing Specialised personal service.	Performing the work assigned by the employer.
3	Qualification	Qualification is not necessary	Minimum technical and academic qualification are necessary to enter a profession.	Specific qualification is needed in some cases but not in all cases
4	Investment	Investments are needed	Some investments are needed	No investment is required
5.	Reward	Profit is the reward for business	Professional fee is charged from clients	Salary or wages is the reward for services

## **8. Explain the economic objectives of business.**

**Ans-** The economic objectives of business are as follows-

**I. Profit Earning-** Business is a set of activities undertaken with the prospect of sale for the purpose of earning a profit. The main objective of any business is to earn a profit.

**II. Survival** – Every business aims to ensure that it continues to survive and exist in the future. Survival is possible only when organization is able to earn enough revenue to cover its costs.

**III. Growth** – A business needs to add to its prospects in the long run. For this, the business must grow and expand to survive in the long run.

**IV. Innovation:** It means developing new products and their multiple uses. Old customers can be maintained and new can be attracted by innovation only.

**V. Creating Goodwill:** When a business is able to make good profits and other economic activities, its goodwill amongst investors and competitors goes up.

## **9. Explain the various non-economic objectives of business.**

**Ans-** The various non-economic objectives of business are classified as under

### **A. Social Objectives-**

**I. Supply of Quality products at Fair Prices** – The business should ensure that there is a regular supply of useful products with fair quality and at reasonable prices.

**II. Generation of Employment Opportunities** – Every business enterprise should create sufficient employment opportunities without any discrimination as to caste, religion, sex, etc.

**III. Protection of Environment** – Business enterprise should take all reasonable steps to check and protect environment.

**IV. Welfare of Employees** – No business can succeed without the contribution of its employees. Thus, business should aim to provide fair wages and reasonable working and living conditions to workers

**B. Human or Individual Objectives:**

- (i) To provide healthy and safe working conditions.
- (ii) To pay fair and competitive salaries and perks.
- (iii) To provide opportunities for personal growth and development of employees.
- (iv) To provide reasonable security of service.
- (v) To provide various financial and non-financial incentives in order to motivate the workers.
- (vi) To encourage employees to take initiative and participation in management.

**10. What is Business Risk? What are the types of risk.**

**Ans-** 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 risk.

I. Speculative Risk- The risk that arises due to the changes in the condition of market is known as speculative risk. Such as changes in technology, tastes, habits, fashion and price etc.

II. Pure Risk- Such risk involves possibility of loss or no loss. Such as theft, fire or strike etc.

**11. Explain the nature of Business Risk?**

**Ans- The nature of Business Risk are as follows-**

**1. Arises due to Uncertainties**

Uncertainties mean when you are not sure of what is going to happen in future. Common examples of uncertainties are: change in demand, government policy, technology etc.

## **2. Essential part of any Business**

A risk is an important characteristic of business. No business can avoid risk although the degree of risk may vary Risk can be reduced but cannot be eliminated.

## **3. Degree of Risk Depends upon the Nature and Size of Business**

The degree of risk depends upon the type of business; for example, a business involved in fashion items bears more risk as compared to the business involved in standardized goods.

## **4. Profit is the Reward for bearing the Risk:**

The business earns a profit because they are bearing risk. "No risk no gain" larger the risk more is the profit.

## **12. Explain the causes of Business Risk?**

**Ans-** The causes of Business Risk are as follows-

### **I. Natural Causes-**

Natural calamities like earthquake, flood, drought, famine etc. Affect a business a lot and can result in heavy losses. The natural causes are such type of uncertain factors that human beings cannot make any preparation against.

### **II. Human Causes-**

Human causes are related to a chance of loss due to human being or employees of the organization. The dishonesty of employees can bring heavy losses for business.

### **III. Economic Causes**

Economic causes are related to a chance of loss due to change in the market. There can be a change in the degree of competition. All these have a direct impact on the earnings of the business.

### **IV. Physical Causes**

All the causes which result in damage of assets are considered as a physical cause, for example, change in technology may result in machinery being outdated, use of old technology, mechanical defects may also result in damage of assets

### **13. What are the various methods of dealing with business risks?**

**Ans-** The various methods of dealing with business risks are as follows-

#### **I. Preventive Measures-**

These are the measures which reduces the element of risks.

- A. Firms should decide not to enter highly risky transactions.
- B. Scientific methods should be used to prevent fire accidents.
- C. Market research may be done to estimate future demands.

#### **II. Shifting and sharing of risks-**

Sometimes the risk cannot entirely be ruled out. In those situations the risks in business may either be shifted or shared.

- A. Taking insurance policy to transfer or shift the risk.

### **14. Explain the various factors to be considered for starting a business?**

**Ans-** 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 sole, 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.