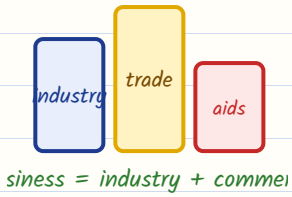
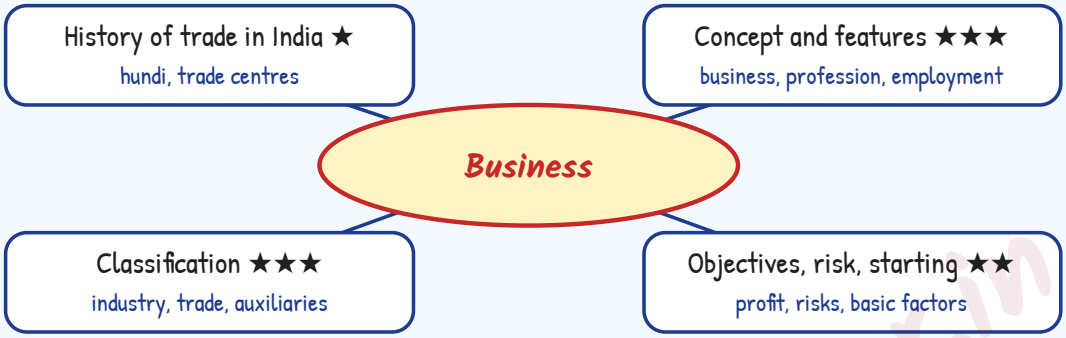
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Chapter 1
Nature and Purpose of Business



NCERT Business Studies (Class 11), Reprint 2026-27 · CBSE 2026-27

Chapter map (★ = asked often in school and annual exams)



What is inside

1. Concept notes with tables and a flow chart
2. NCERT exercises: all short, long and case questions answered
3. Important exam questions, fully solved
4. Quick-reference sheet; practice A–G, 20 MCQs, 6 A–R, answers, summary

Colour code used

red = key term green = definition

purple = sub-heading black = explanation

★ = high-frequency exam topic

1 = mark the examiner gives for that point

★ **Exam tip:** The comparison of business, profession and employment (9 points) and the classification chart are asked every year. Learn the chart by its branches.

NB **Prepared by Notes Bazar** · Every answer written and checked by hand against NCERT and the CBSE marking schemes. Doubt or mistake? WhatsApp 88240 98091.

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1.1 Business in the development of the economy ★

People need goods and services; they are made available by economic activities of production, distribution, exchange and consumption. Production of goods is **industry**; the activities that bring them to consumers are **commerce**. Together: **business** = industry + trade + commerce. Business starts with production and ends with consumption.

Trade in ancient India

- Trade by land (Silk Route) and sea was the mainstay of the economy; family workshops (**karkhanas**) produced cloth, pottery, handicrafts.
- **Indigenous banking**: surplus income financed trade. **Hundi** (literally "to collect") and **chitties** (South) were documents to transfer money safely over long distances (risk of theft); they were unconditional orders, transferable by negotiation.
- Credit, loans and advances grew; later commercial, industrial and agricultural banks developed.
- India had a **favourable balance of trade**; exports: spices, wheat, sugar, indigo, opium, sesame oil, cotton; imports: horses, Chinese silk, linen, wine, gold, silver, copper.
- Travellers (Megasthenes, Fa Hien, Huen Tsang, Al Beruni, Ibn Batuta) called India "Swaran Bhoomi" and "Swaran Dweep". Between the 1st and 7th centuries CE India had about one-third of the world's wealth (32% in 1 AD and 1000 AD; 24.4% in 1600–1700).

hundi	*type*	*feature*
Dhani-jog	darshani (sight)	payable to any person
Sah-jog	darshani	payable to a specific respectable person
Firman-jog	darshani / muddati	payable to order
Dekhan-har	darshani	payable to the bearer
Jokhmi	muddati (fixed term)	drawn against goods sent; if goods are lost, drawer or holder bears the loss

Trade centres: Pataliputra (stones), Peshawar (wool, horses), Taxila (banks, university), Indraprastha (road junction), Mathura, Varanasi (textiles, gold silk), Mithila (trade with Java, Sumatra, Borneo), Ujjain (agate, muslin), Surat (zari textiles; its hundi honoured in Egypt and Iran), Kanchi (pearls), Madura (pearl fisheries), Broach (Narmada), Kaveripatta and Tamralipti (ports).

Later: under the East India Company India became an exporter of raw materials and importer of manufactured goods. After 1947: planned development, public sector in basic industries. Crisis in the balance of payments led to **liberalisation in 1991** (stabilisation, restructuring, globalisation). Today: fast growth, FDI destination; Make in India, Skill India, Digital India.

1.2 Concept of business; comparison with profession and employment ★★★

Economic activities earn a livelihood (a doctor in her clinic, a worker in a factory); **non-economic activities** are done out of love, sympathy or patriotism (a housewife cooking, a boy helping an old man). Economic activities: **business, profession, employment**.

> **Business** is an economic activity involving the production and sale of goods and services undertaken with the motive of earning profit by satisfying human needs in society. (The word comes from "busy".)

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Characteristics of business

1. **Economic activity**: done to earn money, not out of love.
2. **Production or procurement** of goods and services.
3. **Sale or exchange** of goods and services for value (not for self-use).
4. **Dealings on a regular basis**: a single sale is not business.
5. **Profit earning**: the main purpose; needed for survival and growth.
6. **Uncertainty of return**: profit is never certain; losses may occur.
7. **Element of risk**: changes in tastes, competition, strikes, fire, theft.

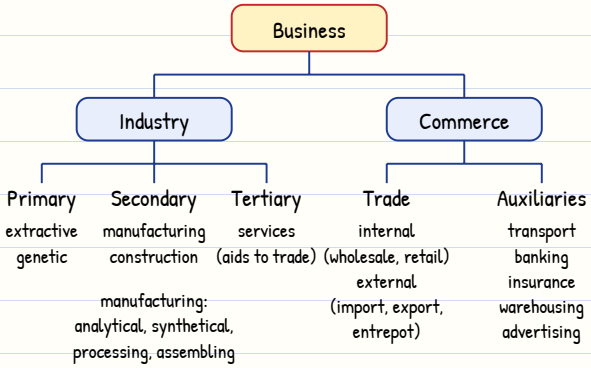
Try it yourself (NCERT): health worker treating a patient: economic; store owner giving free medicine out of sympathy: non-economic; coach training his daughter: non-economic; housewife's chores: non-economic. Barter is an economic activity (exchange for value).

basis	business	profession	employment
mode of establishment	entrepreneur's decision and legal formalities	membership of a professional body and certificate of practice	appointment letter and service agreement
nature of work	goods and services to the public	personalised expert services	work as per contract
qualification	none compulsory	prescribed qualification and training	as required by the employer
reward	profit	professional fee	salary or wages
capital	as required by size and nature	limited, for establishment	none
risk	profits uncertain; high risk	fee regular; little risk	fixed salary; no risk
transfer of interest	possible with formalities	not possible	not possible
code of conduct	none prescribed	professional code	rules of service
example	shop, factory	doctor, lawyer, CA	jobs in banks, offices

★ **Exam tip:** Business gives profit, a profession gives fee, employment gives salary: write this first line in every comparison answer.

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1.3 Classification of business activities ★★★



Classification of business activities

Industry

Activities that produce or process goods (in a narrow sense, groups of firms making similar goods: cotton textile industry).

- **Primary**: **extractive** (mining, fishing, hunting, forestry, farming) and **genetic** (breeding and raising animals and plants: poultry, nurseries, cattle farms).
- **Secondary**: materials from primary industries are processed: **manufacturing** (analytical: oil refining; synthetical: cement; processing: sugar, paper; assembling: cars, computers) and **construction** (buildings, roads, dams).
- **Tertiary (service)**: support to primary and secondary industries and to trade: transport, banking, insurance, warehousing, communication, advertising.

Commerce

All activities that remove the hindrances in the exchange of goods: **trade** and **auxiliaries to trade**. It links producers and consumers.

hindrance	*removed by*
person (producer far from consumer)	trade
place	transport and communication
finance	banking
risk	insurance
time	warehousing
information	advertising and public relations

Trade: buying and selling. **Internal (home)**: within a country (wholesale, retail). **External (foreign)**: between countries: import, export, entrepot (import for re-export).

Auxiliaries: (i) **transport and communication** (place utility; information among parties); (ii) **banking and finance** (funds, cheques, overdrafts, loans); (iii) **insurance** (protection against fire, theft, accidents); (iv) **warehousing** (time utility by storage); (v) **advertising and public relations** (information about goods; demand creation).

★ ***Exam tip:*** Commerce = trade + auxiliaries to trade. Industry creates form utility; commerce creates place, time and possession utility.

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Objectives of business; business risk; starting a business ★★

Role of profit: (i) source of income for owners; (ii) source of finance for expansion; (iii) indicates efficient working; (iv) reward for risk; (v) builds reputation. But business needs **multiple objectives** because profit alone ignores other needs.

objective	meaning
market standing	position relative to competitors; offering competitive products
innovation	new ideas and methods: new products, better processes
productivity	output ÷ input: efficient use of resources
physical and financial resources	acquiring plant, machinery, offices and funds
earning profits	enough profit to survive and grow
social responsibility	obligations to society: pollution control, fair dealing

Business risk

Business risk is the possibility of inadequate profits or even losses due to uncertainties or unexpected events (fall in demand, rise in price of inputs, fire, theft).

Nature: (i) risks arise from uncertainties; (ii) risk is an essential part of every business; (iii) degree of risk depends on the nature and size of business; (iv) profit is the reward for risk taking.

cause of risk	examples
natural causes	flood, earthquake, lightning, heavy rain, famine
human causes	dishonesty, carelessness of employees, strikes, riots, power failure, management inefficiency
economic causes	changes in demand and prices, competition, interest rates, technology
other causes	political disturbances, mechanical failures (boiler burst), exchange-rate changes

Starting a business: basic factors

1. **Selection of line of business**: market demand, technology, profit potential.
2. **Size of the firm**: depends on demand, finance and risk.
3. **Location**: raw materials, labour, banks, transport, market.
4. **Financing the proposition**: fixed and working capital.
5. **Physical facilities**: machinery, building and supporting services.
6. **Competent and committed workforce**.
7. **Tax planning**: tax laws affect form and location.
8. **Launching the enterprise**: mobilising resources and starting operations.

★ **Exam tip:** Remember the 8 factors as "Line, Size, Location, Finance, Facilities, Workforce, Tax, Launch".

NCERT exercises, fully solved

Short answer questions

SA 1. Why is business considered an economic activity?

> **Ans.** Because it is undertaken to earn money (profit) and a livelihood, by producing and selling goods and services, not out of love, sympathy or sentiment.

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SA 2. How does business contribute to the economic development of a country?

Ans. It produces goods and services, creates employment and income, uses resources productively, earns foreign exchange through exports, pays taxes that finance public services, and invests in new technology and infrastructure. Historically, India's trade and banking made it "Swaran Bhoomi".

SA 3. State the different types of economic activities.

Ans. Business (profit), profession (fee for expert services), employment (salary or wages).

SA 4. State the meaning of business.

Ans. An economic activity involving the production and sale of goods and services, on a regular basis, with the motive of earning profit by satisfying human needs.

SA 5. How would you classify business activities?

Ans. Into **industry** (primary: extractive, genetic; secondary: manufacturing, construction; tertiary: services) and **commerce** (trade: internal and external; auxiliaries: transport, banking, insurance, warehousing, advertising) (chart p. 4).

SA 6. What are the various types of industries?

Ans. Primary (extractive and genetic), secondary (manufacturing: analytical, synthetical, processing, assembling; and construction) and tertiary or service industries.

SA 7. Explain any two auxiliaries to trade.

Ans. **Warehousing**: storage of goods from production till sale removes the hindrance of time and creates time utility. **Insurance**: protects against loss of goods, machinery and buildings by fire, theft, accidents in return for a premium.

SA 8. What is the role of profit in business?

Ans. Profit is the main objective: income for owners, funds for expansion, a measure of efficiency, the reward for risk, and it builds reputation and goodwill.

SA 9. What is business risk?

Ans. The possibility of inadequate profits or losses due to uncertainties or unexpected events.

SA 10. State the causes of risks in business.

Ans. Natural (floods, earthquakes), human (dishonesty, strikes, inefficiency), economic (changes in demand, prices, competition, technology) and other causes (political disturbances, mechanical failure, exchange-rate changes).

Long answer questions

LA 1. Discuss the development of the indigenous banking system in the Indian subcontinent.

Ans. Trade by land and sea generated surplus income which was channelled into investment, giving rise to indigenous bankers who financed traders. Documents such as **hundi** (to collect) and **chitties** transferred money safely over long distances; a hundi was an unconditional order to pay, transferable by negotiation. Different hundis existed: dhani-jog, sah-jog, firman-jog, dekhan-har, jokhmi (table p. 2). Credit, loans and advances expanded commerce; India enjoyed a favourable balance of trade. Later commercial and industrial banks financed trade and industry and agricultural banks gave short and long-term loans to farmers.

LA 2. Define business. Describe its important characteristics.

Ans. Definition and the seven characteristics: economic activity; production or procurement; sale or exchange; regular dealings; profit earning; uncertainty of return; element of risk, each explained in a line.

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LA 3. Compare business with profession and employment.

> **Ans.** Use the nine-point table: establishment, nature of work, qualification, reward, capital, risk, transfer of interest, code of conduct, examples.

LA 4. Define industry and explain its types with examples.

> **Ans.** Industry: activities that produce or process goods. Primary: extractive (mining, fishing) and genetic (poultry, nurseries); secondary: manufacturing (analytical: oil refinery; synthetical: cement; processing: sugar; assembling: cars) and construction (roads, dams); tertiary: transport, banking, insurance, warehousing, communication.

LA 5. Describe the activities relating to commerce.

> **Ans.** Trade (internal: wholesale and retail; external: import, export, entrepot) and auxiliaries: transport and communication (place), banking and finance (finance), insurance (risk), warehousing (time), advertising (information).

LA 6. Explain any five objectives of business.

> **Ans.** Market standing, innovation, productivity, physical and financial resources, earning profits, social responsibility (table p. 5).

LA 7. Explain business risk and its causes.

> **Ans.** Meaning and nature and the four causes with examples.

LA 8. What factors are considered while starting a business?

> **Ans.** Selection of the line of business, size, location, financing, physical facilities, competent workforce, tax planning and launching.

Activities

Act 1. Find out why a shop in your locality closed; prepare a project report on the factors for starting a business.

> **Ans.** Typical reasons: poor location, wrong choice of line (low demand), insufficient capital, high rent, competition from large stores and online sellers, poor staff. The report should cover the eight basic factors and show how each was handled badly in the closed shop.

Act 2. "Make in India" (launched 25 September 2014): collect investment data for five of its 25 sectors.

> **Ans.** Choose sectors such as automobiles, electronics, pharmaceuticals, renewable energy, food processing; record investment for three years in the table format given; reasons for investor interest: large domestic market, young workforce, reforms, production-linked incentives.

Case: Dipak Bharali and "Chaneki"

Dipak, a silk weaver of Sualkuchi (Kamrup, Assam), found buta weaving (weft insertion) slow and tiring. Instead of only buying more looms, he made a device, **Chaneki**, from recyclable materials after 80 attempts; it runs looms 40 times faster than manual weft insertion, raising output and quality.

Case 1. Which objective of business is discussed?

> **Ans.** **Innovation** (with productivity as its result).

Case 2. How has it contributed to the growth of the business? Give reasons.

> **Ans.** The new device increased productivity (40 times faster), improved quality, reduced fatigue of workers and allowed more orders without buying many more looms; lower cost per unit raised profits, and the eco-friendly design added reputation.

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Case 3. Why does business need multiple objectives for sustainable growth?

> **Ans.** Profit alone is not enough: a business must keep its market standing against competitors, innovate, use resources productively, acquire physical and financial resources and meet social responsibility. Balancing these keeps customers, workers and society satisfied, which sustains growth over the long run.

★ **Exam tip:** Case answers: name the concept, quote the line from the case that shows it, and explain in one sentence.

Quick-reference sheet

term	remember
business	production and sale for profit, regularly
7 characteristics	economic, produce, sell, regular, profit, uncertain return, risk
business / profession / employment	profit / fee / salary
primary industry	extractive, genetic
secondary	manufacturing (4 types), construction
tertiary	services, aids to trade
commerce	trade + auxiliaries
auxiliaries	transport, banking, insurance, warehousing, advertising
objectives	market standing, innovation, productivity, resources, profit, social responsibility
risk causes	natural, human, economic, other
hundi	indigenous instrument to transfer money

Case study (practice): 'Meena's dairy'. Meena keeps 20 cows and sells milk in her town every day. She buys a chilling unit to store milk, takes a bank loan for it, insures the cows and advertises on local radio. A flood last year killed two cows.
(i) Which industry is Meena engaged in? (ii) Name the auxiliaries to trade she uses. (iii) Identify the cause of risk in the flood. (iv) Which objective does her chilling unit serve?

★ **Exam tip:** Quote the line from the case before naming the concept: "stores milk in a chilling unit" → warehousing.

Important exam questions, fully solved

Questions of the kind set in school and annual exams, with complete answers and mark steps.

A. MCQs and Assertion–Reason (1 mark each)

Exam-style Poultry farming is an example of: (A) extractive industry (B) genetic industry (C) manufacturing (D) construction [1]

> **Ans.** (B)

Exam-style Warehousing removes the hindrance of: (A) place (B) time (C) risk (D) finance [1]

> **Ans.** (B)

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Exam-style Assertion (A): A single sale of an old car is not business. Reason (R): Business requires dealings on a regular basis. [1]

Ans. Both true; R explains A. (A)

B. Short answer (3 marks)

Exam-style Identify the industry: (a) oil refinery (b) cement (c) car assembly plant. [3]

Ans. (a) analytical manufacturing (b) synthetical manufacturing (c) assembling manufacturing 1 each.

Exam-style "Business is a risky activity." Give three reasons. [3]

Ans. Uncertain future demand and prices 1; natural calamities and human failures 1; competition and technology changes 1.

C. Long answer (4–6 marks)

Exam-style Distinguish between business, profession and employment (any six). [6]

Ans. Six rows of the table 1 each.

Exam-style Ravi wants to open a bakery. Explain four factors he should consider. [4]

Ans. Line of business and demand for bakery products in the area 1; location near customers and suppliers 1; finance for ovens and working capital 1; skilled bakers and hygiene facilities (workforce, physical facilities) 1.

Exam-style Explain the auxiliaries to trade. [5]

Ans. Transport and communication; banking and finance; insurance; warehousing; advertising, each with the hindrance removed 1 each.

Practice set: test yourself Exam-style

Try every question before looking at the answers at the end of the chapter. 69 or more out of 86 means you are ready for the exam.

A. Fill in the blanks (1 mark each)

1. The word business comes from ___.
2. Mining is a ___ industry.
3. Reward in a profession is ___.
4. Commerce includes trade and ___ to trade.
5. Banking removes the hindrance of ___.
6. Import for re-export is ___ trade.
7. Output ÷ input is ___.
8. Hundi literally means ___.

B. True or false? (1 mark each)

1. A housewife cooking for her family is an economic activity.
2. Construction is a secondary industry.
3. An employee bears business risk.
4. Profit is the reward for risk.

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5. Advertising is an auxiliary to trade.
6. A profession needs no qualification.
7. Earthquakes are a natural cause of risk.
8. Business needs only one objective: profit.

C. Very short answer (1 mark each)

1. Give an example of genetic industry.
2. Give an example of synthetical industry.
3. Name the utility created by transport.
4. What is entrepot trade?
5. Name two travellers who praised India's prosperity.
6. In which year did India start liberalisation?
7. Give an example of a profession.
8. Name one human cause of risk.
9. What is innovation?
10. Give one example of a non-economic activity.

D. Short answer I (3 marks each)

1. Explain three characteristics of business.
2. Explain primary industries.
3. Explain secondary industries with examples.
4. Explain three auxiliaries to trade.
5. Explain the nature of business risk.
6. Why is profit important for business?
7. Explain the role of hundi in ancient trade.
8. Explain three factors for starting a business.

My score (fill in after checking the answers)

Section	A /8	B /8	C /10	D /24	E /24	F /12	G (bonus)	Total /86
My marks								

Rough work

E. Short answer II (4 marks each)

1. Distinguish business and employment (four points).
2. Explain the objectives of business (any four).

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3. Explain the causes of business risk.
4. Explain how commerce removes hindrances in exchange.
5. Explain the major trade centres of ancient India (any four).
6. Classify into industry type: dairy, fishing, sugar mill, bridge building.

F. Long answer (6 marks each)

1. Explain the classification of business activities with a chart.
2. Explain the factors to be considered while starting a business.

G. HOTS (higher-order thinking)

1. Why is a doctor treating patients in a free camp not engaged in an economic activity?
2. Why is risk higher in business than in employment?
3. How did hundi reduce the risk of theft?
4. Why is innovation important for an Indian handloom weaver?

20 MCQs

1. Business is an activity done for:
   (a) charity (b) service only (c) profit (d) leisure
2. Which is not an economic activity?
   (a) a mother teaching her child (b) a teacher in a school (c) a shopkeeper (d) a bank clerk
3. Reward for employment:
   (a) profit (b) rent (c) fee (d) salary or wages
4. Fishing is a:
   (a) genetic industry (b) extractive industry (c) manufacturing (d) construction
5. Nurseries are a:
   (a) extractive (b) genetic industry (c) tertiary (d) secondary
6. Oil refining is:
   (a) synthetical (b) processing (c) assembling (d) analytical
7. Cement making is:
   (a) synthetical (b) analytical (c) assembling (d) genetic
8. Car manufacturing is:
   (a) processing (b) analytical (c) assembling (d) extractive
9. Building dams is a:
   (a) primary (b) genetic (c) tertiary (d) construction industry
10. Insurance removes the hindrance of:
    (a) time (b) risk (c) place (d) person
11. Transport creates:
    (a) time utility (b) form utility (c) place utility (d) possession utility
12. Import of goods for re-export is:
    (a) entrepot trade (b) export trade (c) retail (d) wholesale
13. Commerce =
    (a) industry + trade (b) trade + auxiliaries to trade (c) production (d) services
14. A professional must:
    (a) invest heavy capital (b) take big risks (c) follow a code of conduct (d) earn profits

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15. Profit is the reward for:
(a) labour (b) capital only (c) land (d) risk

16. Strikes are a:
(a) human cause of risk (b) natural (c) economic (d) political

17. Changes in demand are a:
(a) economic cause of risk (b) natural (c) human (d) physical

18. Hundi was a:
(a) coin (b) ship (c) tax (d) financial instrument for transferring money

19. India adopted economic liberalisation in:
(a) 1947 (b) 1991 (c) 2014 (d) 1951

20. Output per unit of input is:
(a) innovation (b) market standing (c) productivity (d) profit

1 (c) · 2 (a) · 3 (d) · 4 (b) · 5 (b) · 6 (d) · 7 (a) · 8 (c) · 9 (d) · 10 (b) · 11 (c) · 12 (a) · 13 (b) · 14 (c) · 15 (d) · 16 (a) · 17 (a) · 18 (d) · 19 (b) · 20 (c)

Assertion–Reason (6)

(a) Both true, R explains A. (b) Both true, R does not explain A. (c) A true, R false. (d) A false, R true.

1. A: Business involves risk. R: Future events cannot be predicted with certainty.
2. A: Employment involves heavy capital. R: Employees work for a salary.
3. A: Warehousing creates time utility. R: It stores goods till they are needed.
4. A: A profession needs no special qualification. R: Professionals render expert services.
5. A: Business needs multiple objectives. R: Profit alone cannot ensure survival and growth.
6. A: Genetic industries breed animals and plants. R: Poultry and nurseries are examples.

Key: 1 (a) · 2 (d) · 3 (a) · 4 (d) · 5 (a) · 6 (a)

Answers to the practice set

A. 1. busy 2. primary (extractive) 3. fee 4. auxiliaries 5. finance 6. entrepot 7. productivity 8. to collect

B. 1. F 2. T 3. F 4. T 5. T 6. F 7. T 8. F

C. 1. poultry 2. cement 3. place utility 4. import for re-export 5. Megasthenes, Ibn Batuta 6. 1991 7. lawyer 8. strikes (dishonesty) 9. new ideas, products or methods 10. helping a blind person cross the road

D. 1. p. 3 2. p. 4 3. p. 4 4. p. 4 5. p. 5 6. p. 5 7. p. 2 8. p. 5

E. 1. p. 3 table 2. p. 5 table 3. p. 5 4. p. 4 table 5. p. 2 6. dairy: genetic; fishing: extractive; sugar mill: processing (manufacturing); bridge: construction

F. 1. p. 4 2. p. 5

G. 1. there is no motive of earning money 2. the entrepreneur's profit is uncertain while the employee gets a fixed salary 3. money itself was not carried; only a paper order payable at the destination 4. it raises productivity and quality to compete with power looms and markets

Case. (i) genetic (primary) industry (ii) warehousing (chilling unit), banking (loan), insurance, advertising (radio), transport if she delivers (iii) natural cause (iv) productivity / physical resources (and market standing)

Last-night summary

- India's ancient trade, hundi and indigenous banking; liberalisation 1991.
- Business: regular production and sale for profit; 7 characteristics; vs profession (fee) and employment (salary).
- Industry: primary (extractive, genetic), secondary (manufacturing, construction), tertiary.

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- Commerce = trade (internal, external) + auxiliaries (transport, banking, insurance, warehousing, advertising).
- Objectives (6); risk (natural, human, economic, other); 8 factors for starting a business.

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