

BUSINESS STUDIES

Chapter 1: BUSINESS, TRADE AND COMMERCE



Important Questions

Multiple Choice questions-

1. Which one of the following is NOT the objective of the business?
 - A. Investment
 - B. Innovation
 - C. Creation of customers
 - D. Profit-making
2. Which one of the following is an economic activity in which specialized knowledge is required?
 - A. Profession
 - B. Business
 - C. Employment
 - D. None of the above
3. Commerce includes activities relating to trade and _____ to trade.
 - A. Auxiliaries
 - B. Subsidiaries
 - C. Supporting
 - D. None of the above
4. Bad debts due to non-payment of debt by the debtor are an example of which type of business risk?
 - A. Human
 - B. Natural
 - C. Physical
 - D. Economic
5. Which of the following is an economic cause of business risks?
 - A. Demand for goods
 - B. Competition
 - C. Price
 - D. All of the above
6. Business risk is not likely to arise due to
 - A. Power failure
 - B. Employee dishonesty

- C. Changes in government policy
D. Good management
7. The word marketing standing is concerned with _____
- A. Position of an enterprise
B. Supply of the product
C. Customers
D. Competitors
8. Why a business should earn a profit?
- A. To provide a return to investors
B. To increase the reputation of the business
C. To provide funds for future growth
D. All of the above
9. Which one of the following is NOT an Auxiliary to trade?
- A. Mining
B. Warehousing
C. Insurance
D. Transport
10. Which of the following is not a natural cause of business risks?
- A. Earthquake
B. Strikes
C. Famine
D. Heavy Rains
11. Which of the following is not concerned with the profession?
- A. Manufacturing goods and services
B. Specialised body of knowledge and skill
C. Code of conduct
D. Formal Training
12. Which of the broad categories of industries covers oil refinery and sugar mills?
- A. Primary
B. Secondary
C. Tertiary
D. None of the above
13. Which of the following is an instrument of exchange, which was prominent in the

subcontinent?

- A. Copper
- B. Hundi
- C. Gold
- D. Silver

14. The occupation in which people work for others and get remunerated in return is known as:

- A. Profession
- B. Employment
- C. Business
- D. None of the above

15. The industries which provide support services to other industries are known as

- A. Primary industries
- B. Commercial industries
- C. Tertiary industries
- D. Secondary industries

Very Short:

1. What are the different types of economic activities?
2. Name one economic pursuit, in which expertise is required.
3. Name the industries that furnish support to other fellow industries.
4. Can fishing be contemplated as a primary industry?
5. What is the reward that a businessman earns for bearing risk?
6. Sort the following into a business concern, employment and profession.
 - Farmer
 - Clerk
 - Lawyer
 - Doctor
7. Under which type of industry do oil refinery and sugar mills are classified?

Short Questions:

1. What is the difference between Business and Profession?
2. Mention the risks that are involved in the business.
3. What are the objectives of the business?
4. What is Commerce and its significance in modern life?

5. What are the differences between primary and secondary industry?
6. How does a trader get rid of the hindrance of a person?
7. Insurance is known as the tertiary industry. Explain.

Long Questions:

1. Explain in detail the social objectives of the business in today's context.
2. Can profit be the sole objective of a business? Explain the reasons in favor and against the profit objective of the business.

Case Study Questions-

1. Read the following passage and answer the questions given below

Saransh and Vishal have their pharmaceutical factory in Jaipur. Their main focus is providing quality products at reasonable prices. They procure the services of a renowned medicine specialist Mr. Andrews from Germany who gives them feedback about the quality of their products. Because of increasing competition with foreign Pharmaceutical Companies, their market share is decreasing and they are suffering huge losses.

To ensure their existence in the market, their management is concentrating on full usage of machines, and reducing wastage, and effective promotion of their products to increase the sales.

(i) "Mr. Andrews from Germany who gives them feedback about the quality of their" Identify the economic activity Mr. Andrews performs.

- (a) Business
- (b) Profession
- (c) Employment
- (d) Partnership

(ii) "Because of increasing competition with foreign Pharmaceutical Companies, their market share is decreasing..." Name the type of risk related to the above-stated line.

- (a) Speculative risk
- (b) Foreign risk
- (c) Pure risk
- (d) All of the above

(iii) Pharmaceutical industry is an example of which of the following types of secondary industries?

- (a) Genetic
- (b) Analytical
- (c) Synthetic
- (d) Processing

(iv) Match the different manufacturing industries with their suitable examples.

Nature and Purpose of Business:

| Column I | | Column II | |
|----------|---------------------|-----------|--------------|
| 1. | Analytical industry | i. | Cement |
| 2. | Synthetic industry | ii. | Television |
| 3. | Processing industry | iii. | Oil refining |
| 4. | Assembling industry | iv. | Sugar |

- (a) 1. (i), 2. (iii), 3. (iv), 4. (ii)
 (b) 1. (iii), 2. (i), 3. (iv), 4. (ii)
 (c) 1. (iv), 2. (i), 3. (iii), 4. (ii)
 (d) 1. (iii), 2. (i), 3. (ii), 4. (iv)

(v) "To ensure their existence in the market, their management is concentrating..." Which economic objective is indicated in this statement?

- (a) Survival
 (b) Profit
 (c) Growth
 (d) Diversification

2. Read the following passage and answer the questions given below.

Oorza Limited is the manufacturer and trader of electrical goods. The company's efficient management team, and effective marketing strategies have enabled it to carve a niche in the industry, allowing it to stand out. But, over the past few years, its profit margins and customer loyalty have been going down. After analysis of the reasons for lowering performance, the company executives suggested how CSR can improve profits. They understand that CSR can promote respect for their company in the marketplace which can result in higher sales, and enhance employee loyalty. Also, CSR activities focusing on sustainability issues may lower costs and improve efficiency as well. The company followed the CSR initiatives and is able to regain its market position and increase its goodwill.

(i) Which objective will be fulfilled by the company through CSR?

- (a) Economic
 (b) Social
 (c) Legal
 (d) Personal

(ii) Identify which of these is not a role of profit as stated above.

- (a) Survival of business
 (b) Enhancing goodwill

- (c) Increasing efficiency
- (d) Enhancing customer loyalty

(iii) Match the following services to trade with the hindrances which they remove.

| Column I | | Column II | |
|----------|-------------|-----------|-------------|
| 1. | Transport | i. | Information |
| 2. | Insurance | ii. | Storage |
| 3. | Warehousing | iii. | Place |
| 4. | Advertising | iv. | Person |

- (a) 1. (iv), 2. (iii), 3. (ii), 4. (i)
- (b) 1. (iii), 2. (ii), 3. (iv), 4. (i)
- (c) 1. (iii), 2. (iv), 3. (ii), 4. (i)
- (d) 1. (iii), 2. (iv), 3. (i), 4. (ii)

(iv) Identify the term which is related to uncertainties about the returns and chances of losses in the business.

- (a) Risk
- (b) Market trend
- (c) Natural calamities
- (d) Market standing

(v) "...may lower costs and improve efficiency as well." If the company is able to achieve it, which business objectives are accomplished by the company?

- (a) Profit maximization
- (b) Social responsibility
- (c) Growth and expansion
- (d) All of the above

ANSWER KEY

Multiple Choice questions-

1. Investment
2. Profession
3. Auxiliaries
4. Human
5. All of the above
6. Good management

7. Position of an enterprise
8. All of the above
9. Mining
10. Strikes
11. Manufacturing goods and services
12. Secondary
13. Hundi
14. Employment
15. Tertiary industries

Very Short Answer-

1. There are various types of economic activities. Namely,
 - Profession
 - Business
 - Employment
2. Profession is an economic pursuit, in which expertise is required.
3. Tertiary industries are involved in furnishing support to all the primary and secondary industries.
4. Yes.
5. When a businessman bears the risk, the reward that he'll get is – earning the profit.
6.
 - Farmer – Business
 - Clerk – Employment
 - Lawyer – Profession
 - Doctor – Profession
7. Secondary industry

Short Answer-

1.

| Business | Profession |
|--|--|
| In the business, capital investment is necessary according to the size and nature of the business. | In the profession, limited capital is required for the establishment of the business enterprise. |

Here, profits are uncertain.

Here, the risk factor is not to that extent.

2. Every aspect has its own risk factors. So does business has too. Namely,
 - Business risks arise due to a few uncertain and unexpected situations
 - It is a quintessential part of any business
 - However, profit is the reward for bearing the risks
3. Objectives of business are mentioned below:
 - **Innovation:** Every business concern must come up with novice ideas, inventions and implement them; which are helpful for survival and growth.
 - **Productivity:** Productivity is certainly determined by contrasting the value of the output with the value of the input.
 - **Earning Profits:** Any business entity that is operating must earn a reasonable amount of profits in order to sustain survival and growth.
4. Commerce is the control of business among economic agents. Usually, it refers to the exchange of commodities, services or items of value, among companies or entities.

The significance of Commerce are:

- Commerce acts as a catalyst between the manufacturers and customers.
- It establishes employment opportunities.
- It encourages trade in the global level.
- Assists in the growth of developing the industries.
- Helps during exigencies like the natural calamities – earthquake, flood, drought etc.

5.

| Primary | Secondary |
|--|--|
| <p>Pursuits that are concerned with the extraction and manufacturing of natural resources.</p> <p>Classified as follows:</p> <ul style="list-style-type: none"> • Extractive industries • Genetic industries <p>Example: Mining, fishing</p> | <p>These industries manufacture raw materials to produce the commodities for final utilisation.</p> <p>Classified as follows:</p> <ul style="list-style-type: none"> • Manufacturing industries • Construction industries <p>Example: Oil refinery, Sugar mill</p> |

6.

- Getting rid of hindrance of a person by making the commodities obtainable to the customers from the manufacturers via trade.
- Transportation removes hindrance of a location by transporting the commodities from the place of manufacturing to the market place for selling purpose.
- However, insurance removes the hindrance of perils of loss or damage of commodities due to fire, theft and accidents etc.,
- Advertising removes the hindrance of the data by keeping the customers informed regarding the commodities and services that are obtainable in the market place.

7. Insurance is the support service to both the primary and secondary industries.

The tertiary industry is the section of the economy that contributes services to its customers, including a broad array of businesses such as schools, financial institutions and restaurants. It is also called as the tertiary sector or service industry/sector.

Long Answer-

1. **Social Objectives:** Business does not exist in a vacuum. It is an integral part of society and it can achieve its economic objectives only by having deep roots in the society. According to Henry Ford, "The purpose of business is not only earning profit but also discharging responsibilities towards the society," A business must be guided by social objectives since it is a part of the society and gets men, materials, and machines from the society only.

The decision taken by the business has a great influence on the socio-economic conditions in the country. Business is not merely an economic entity, it is a social institution as well. Therefore, it is in the interest of business to pursue certain objectives that are expected by people.

The social objectives of the business are as follows:

1. **Better Quality Goods at Fair Prices-** The business must provide better quality products as desired by the customers. Quality means purity as in the case of food items and medicines or safety as in the case of electrical goods or durability as in the case of TV and refrigerator. Consumers prefer the products which are of satisfactory quality and are available at reasonable prices.

In fact, consumers have become increasingly conscious of quality and want value for money. Therefore, an important objective of a business is to produce and supply goods of proper quality to satisfy the expectations of consumers. The prices charged for the goods should also be reasonable.

2. **Fair Trade Practices-** Anti-social practices include hoarding, black marketing, and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Such

practices are not only illegal but bring a bad name to the business community. Therefore, businessmen must avoid such means of making money. The business should follow fair business practices all the time.

3. **Generation of Employment-** Every business should grow and expand its operations to create new frontiers of employment for society. The business has tremendous scope for the generation of employment opportunities. Business must provide employment without any discrimination on account of caste, creed, religion, or sex. Business is expected to give special consideration to handicapped and weaker sections of society in the matter of employment. Business firms that pursue this objective can improve their public image.
 4. **Employment Welfare-** Employees are a valuable asset and they make significant contributions towards the success of the business. It is an important responsibility of the business to promote the welfare of the employees. Businesses must recognize the dignity of labor and treat employees as partners rather than as mere working hands. Businesses must provide good working conditions, housing, transport, and medical facilities besides fair wages to their employees.
2. Can profit be the sole objective of a business? – Despite the indispensable role in business, profit cannot be the all and all of the business. Profit maximization objective is undesirable and social accountability is also the responsibility of business. According to Urwick, “Earning of profits cannot be the objective of a business any more than eating is the objective of living.”

A business unit is an economic entity in which various factors of production are used. Capital is one of the factors of production and the reward for investing capital is given in the form of profit. Therefore, a business should not be run only to maximize the reward of one factor of production, i.e., the capital. Besides earning profits, it should also aim at the satisfaction of customers, the welfare of workers, community service, etc.

The argument in favor of profit as the sole objective: Earning profits is essential for a business due to the following reasons:

1. It is a sign of healthy business as profit is the chief motivating factor in business.
2. It would provide sufficient return to the investors of capital. Profit is considered to be an index of success in business.
3. It would provide funds for reinvestment in the business.
4. A profit-making concern enjoys goodwill in society.
5. The assets of the business would be used for maximizing profits. Misuse of assets would thus be avoided.

Arguments against profit maximization: Profit maximization should not be the sole motive of any business. The arguments against profit maximization are as under:

1. Profit maximization ignores the interests of labor, customers, and society.
2. Unfair means such as hoarding, black marketing, or adulteration may be followed to maximize profits.
3. The long-term interest of the business may-be ignored to maximize profits in the short-run.
4. In the present-day environment, a business can't be effective with the sole objective of profit maximization. It must also set objectives in areas like customer satisfaction, social responsibility, environmental protection, research, and development, etc.

The profit-making and social service objectives of the business are not contradictory to each other, they go hand in hand. According to Henry Ford, "Mere money chasing is not business. The businessman who keeps his customers satisfied by service will definitely earn good profits.

To conclude earning profits through service to society is the real objective of the business.

Case Study Answers-

1.

(i) (b) Profession

Explanation: A profession is an occupation founded upon specialized educational training, the purpose of which is to supply disinterested objective counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain. A profession is not a trade and not an industry.

(ii) (a) Speculative risk

Explanation: Speculative risk is a category of risk that, when undertaken, results in an uncertain degree of gain or loss. In particular, speculative risk is the possibility that an investment will not appreciate in value. Speculative risks are made as conscious choices and are not just a result of uncontrollable circumstances.

(iii) (d) Processing

Explanation: Secondary Industries which are essentially manufacturing or assembling industries. It receives raw materials from primary industries and processes them to commodities for the customers. Example: Food manufacturing, Textile manufacturing etc.

(iv) (b) 1. (iii), 2. (i), 3. (iv), 4. (ii)

Explanation: Analytical industry is the industry which analysis and separates different elements from the same materials.

Synthetic industries are those industries that combine various ingredients and make a new product like Cement, fragrance and plastics.

The process industries are those industries where the primary production processes are either continuous, or occur on a batch of materials that is indistinguishable.

Assembling industry: These industries are engaged in bringing together various components or parts of bicycles, television, radio and these are some examples of assembling industries.

(v) (a) Survival

Explanation: Business survival refers to keeping the business operating for a certain amount of time. Most businesses initially aim to survive their first year. Profit refers to any money left over after all costs have been taken away from any revenue made by a business.

2.

(i) (b) Social

Explanation: Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

(ii) (d) Enhancing customer loyalty

Explanation: Customer loyalty is an ongoing positive relationship between a customer and a business. It's what drives repeat purchases and prompts existing customers to choose your company over a competitor offering similar benefits.

(iii) (c) 1. (iii), 2. (iv), 3. (ii), 4. (i)

Explanation: Traders act as link between consumers and producers. Traders remove hindrance of persons by making goods available to consumer from producers.

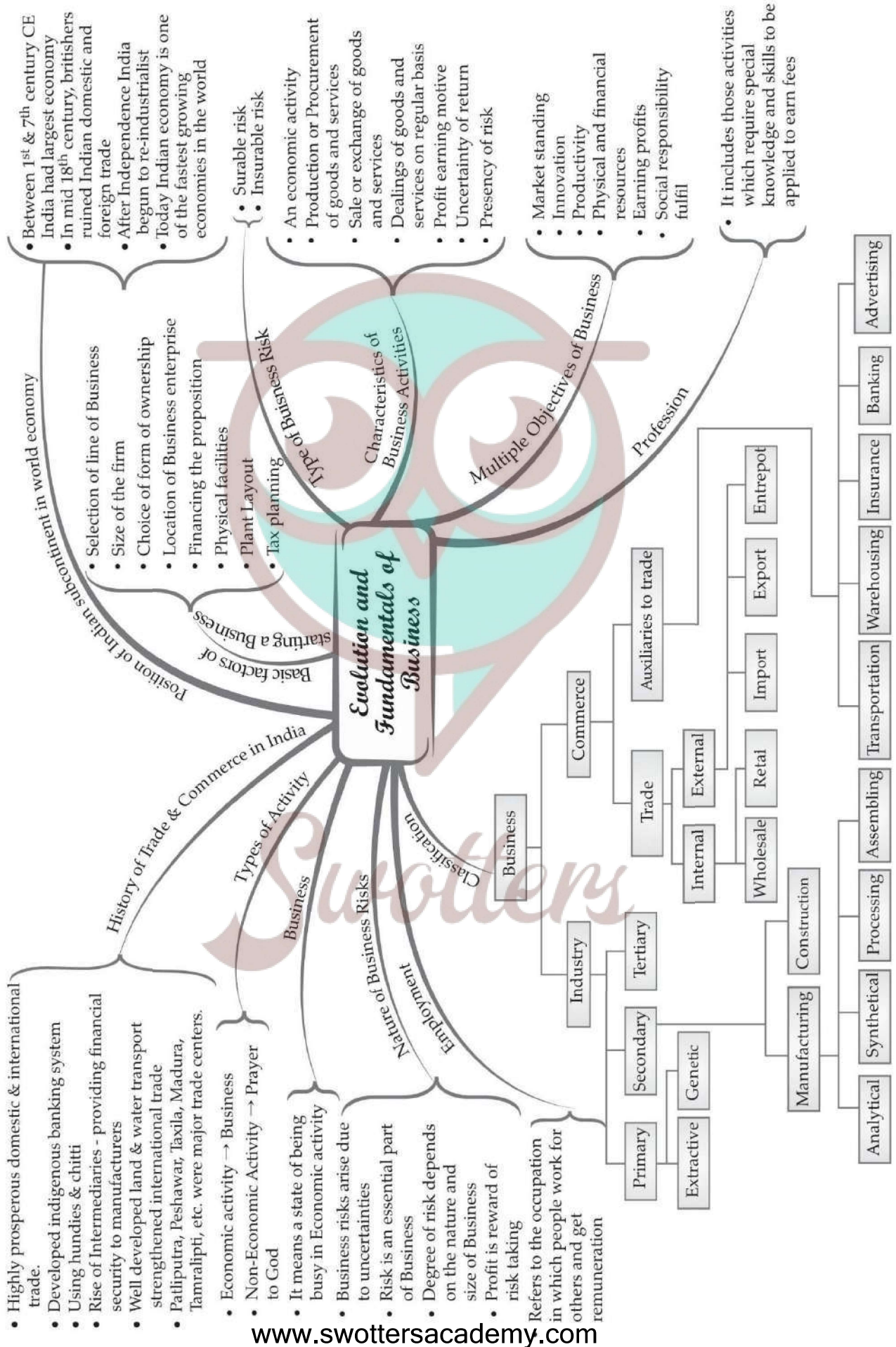
(iv) (a) Risk

Explanation: Business risk is the exposure a company or organization has to factor(s) that will lower its profits or lead it to fail. Anything that threatens a company's ability to achieve its financial goals is considered a business risk. There are many factors that can converge to create business risk.

(v) (a) Profit maximization

Explanation: Profit maximisation is a process business firms undergo to ensure the best output and price levels are achieved in order to maximise its returns. Influential factors such as sale price, production cost and output levels are adjusted by the firm as a way of realising its profit goals.

UNIT - 1 EVOLUTION AND FUNDAMENTALS OF BUSINESS



Important Questions

Multiple Choice questions-

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 - Innovation
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- Which one of the following is an economic activity in which specialized knowledge is required?
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 - None of the above
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7. Insurance is known as the tertiary industry. Explain.

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- (a) Genetic
- (b) Analytical
- (c) Synthetic
- (d) Processing

(iv) Match the different manufacturing industries with their suitable examples.

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(v) "To ensure their existence in the market, their management is concentrating..." Which economic objective is indicated in this statement?

- (a) Survival
 (b) Profit
 (c) Growth
 (d) Diversification

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 (c) Growth and expansion
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ANSWER KEY

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- Auxiliaries
- Human
- All of the above
- Good management
- Position of an enterprise
- All of the above

9. Mining
10. Strikes
11. Manufacturing goods and services
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13. Hundi
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1. There are various types of economic activities. Namely,
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| Primary | Secondary |
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Long Answer-

1. **Social Objectives:** Business does not exist in a vacuum. It is an integral part of society and it can achieve its economic objectives only by having deep roots in the society. According to Henry Ford, "The purpose of business is not only earning profit but also discharging responsibilities towards the society," A business must be guided by social objectives since it is a part of the society and gets men, materials, and machines from the society only.

The decision taken by the business has a great influence on the socio-economic conditions in the country. Business is not merely an economic entity, it is a social institution as well. Therefore, it is in the interest of business to pursue certain objectives that are expected by people.

The social objectives of the business are as follows:

1. **Better Quality Goods at Fair Prices-** The business must provide better quality products as desired by the customers. Quality means purity as in the case of food items and medicines or safety as in the case of electrical goods or durability as in the case of TV and refrigerator. Consumers prefer the products which are of satisfactory quality and are available at reasonable prices.
In fact, consumers have become increasingly conscious of quality and want value for money. Therefore, an important objective of a business is to produce and supply goods of proper quality to satisfy the expectations of consumers. The prices charged for the goods should also be reasonable.
2. **Fair Trade Practices-** Anti-social practices include hoarding, black marketing, and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Such practices are not only illegal but bring a bad name to the business community. Therefore, businessmen must avoid such means of making money. The business should follow fair business practices all the time.
3. **Generation of Employment-** Every business should grow and expand its operations to create new frontiers of employment for society. The business has tremendous scope for the generation of employment opportunities. Business must provide employment without any discrimination on account of

caste, creed, religion, or sex. Business is expected to give special consideration to handicapped and weaker sections of society in the matter of employment. Business firms that pursue this objective can improve their public image.

4. **Employment Welfare-** Employees are a valuable asset and they make significant contributions towards the success of the business. It is an important responsibility of the business to promote the welfare of the employees. Businesses must recognize the dignity of labor and treat employees as partners rather than as mere working hands. Businesses must provide good working conditions, housing, transport, and medical facilities besides fair wages to their employees.
2. Can profit be the sole objective of a business? – Despite the indispensable role in business, profit cannot be the all and all of the business. Profit maximization objective is undesirable and social accountability is also the responsibility of business. According to Urwick, “Earning of profits cannot be the objective of a business any more than eating is the objective of living.”

A business unit is an economic entity in which various factors of production are used. Capital is one of the factors of production and the reward for investing capital is given in the form of profit. Therefore, a business should not be run only to maximize the reward of one factor of production, i.e., the capital. Besides earning profits, it should also aim at the satisfaction of customers, the welfare of workers, community service, etc.

The argument in favor of profit as the sole objective: Earning profits is essential for a business due to the following reasons:

1. It is a sign of healthy business as profit is the chief motivating factor in business.
2. It would provide sufficient return to the investors of capital. Profit is considered to be an index of success in business.
3. It would provide funds for reinvestment in the business.
4. A profit-making concern enjoys goodwill in society.
5. The assets of the business would be used for maximizing profits. Misuse of assets would thus be avoided.

Arguments against profit maximization: Profit maximization should not be the sole motive of any business. The arguments against profit maximization are as under:

1. Profit maximization ignores the interests of labor, customers, and society.
2. Unfair means such as hoarding, black marketing, or adulteration may be followed to maximize profits.
3. The long-term interest of the business may be ignored to maximize profits in the short-run.
4. In the present-day environment, a business can't be effective with the sole objective of profit maximization. It must also set objectives in areas like

customer satisfaction, social responsibility, environmental protection, research, and development, etc.

The profit-making and social service objectives of the business are not contradictory to each other, they go hand in hand. According to Henry Ford, "Mere money chasing is not business. The businessman who keeps his customers satisfied by service will definitely earn good profits.

To conclude earning profits through service to society is the real objective of the business.

Case Study Answers-

1.

(i) (b) Profession

Explanation: A profession is an occupation founded upon specialized educational training, the purpose of which is to supply disinterested objective counsel and service to others, for a direct and definite compensation, wholly apart from expectation of other business gain. A profession is not a trade and not an industry.

(ii) (a) Speculative risk

Explanation: Speculative risk is a category of risk that, when undertaken, results in an uncertain degree of gain or loss. In particular, speculative risk is the possibility that an investment will not appreciate in value. Speculative risks are made as conscious choices and are not just a result of uncontrollable circumstances.

(iii) (d) Processing

Explanation: Secondary Industries which are essentially manufacturing or assembling industries. It receives raw materials from primary industries and processes them to commodities for the customers. Example: Food manufacturing, Textile manufacturing etc.

(iv) (b) 1. (iii), 2. (i), 3. (iv), 4. (ii)

Explanation: Analytical industry is the industry which analysis and separates different elements from the same materials.

Synthetic industries are those industries that combine various ingredients and make a new product like Cement, fragrance and plastics.

The process industries are those industries where the primary production processes are either continuous, or occur on a batch of materials that is indistinguishable.

Assembling industry: These industries are engaged in bringing together various components or parts of bicycles, television, radio and these are some examples of assembling industries.

(v) (a) Survival

Explanation: Business survival refers to keeping the business operating for a certain amount of time. Most businesses initially aim to survive their first year. Profit refers to any money left over after all costs have been taken away from any revenue made by a business.

2.

(i) (b) Social

Explanation: Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

(ii) (d) Enhancing customer loyalty

Explanation: Customer loyalty is an ongoing positive relationship between a customer and a business. It's what drives repeat purchases and prompts existing customers to choose your company over a competitor offering similar benefits.

(iii) (c) 1. (iii), 2. (iv), 3. (ii), 4. (i)

Explanation: Traders act as link between consumers and producers. Traders remove hindrance of persons by making goods available to consumer from producers.

(iv) (a) Risk

Explanation: Business risk is the exposure a company or organization has to factor(s) that will lower its profits or lead it to fail. Anything that threatens a company's ability to achieve its financial goals is considered a business risk. There are many factors that can converge to create business risk.

(v) (a) Profit maximization

Explanation: Profit maximisation is a process business firms undergo to ensure the best output and price levels are achieved in order to maximise its returns. Influential factors such as sale price, production cost and output levels are adjusted by the firm as a way of realising its profit goals.



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