

BUSINESS STUDIES

Chapter 9: BUSINESS, TRADE AND COMMERCE



Important Questions

Multiple Choice Questions -

Question 1. Expand EOUs

- (a) Essential Operating units
- (b) Export Oriented units
- (c) Export Order Units
- (d) Essential order units

Question 2. The District Industries Centers Programme was launched on

- (a) On 15 August 1978
- (b) On May 1, 1978
- (c) On September 1, 1978
- (d) On July 1, 1978

Question 3. The small scale industry can enjoy the status of _____ if it supplies not less than 50% of its production to another industry, referred to as the parent unit.

- (a) Micro Business industry
- (b) Export oriented unit
- (c) Ancillary small industry
- (d) Village industries

Question 4. ISO 9000 is concerned with

- (a) Export
- (b) Quantity
- (c) Quality
- (d) Import

Question 5. Which of the following comes under the Modern Small Industries?

- (a) Coir
- (b) Powerlooms
- (c) Handicrafts
- (d) Khadi

Question 6. Small industries contribute _____ of gross industrial value.

- (a) 49 percent
- (b) 45 percent
- (c) 48 percent

(d) 40 percent

Question 7. The small scale industry can enjoy the status of _____ unit if it exports more than 50% of its production.

- (a) Import oriented units
- (b) Export Oriented units
- (c) Small scale unit
- (d) Domestic unit

Question 8. NSIC was setup in

- (a) 1982
- (b) 1975
- (c) 1965
- (d) 1955

Question 9. _____ are also known as Rural industries or Traditional industries

- (a) Agricultural industry
- (b) Food industry
- (c) Cottage Industries
- (d) None of the above

Question 10. Small scale industries owned and managed by women entrepreneurs have a share capital of not less than _____

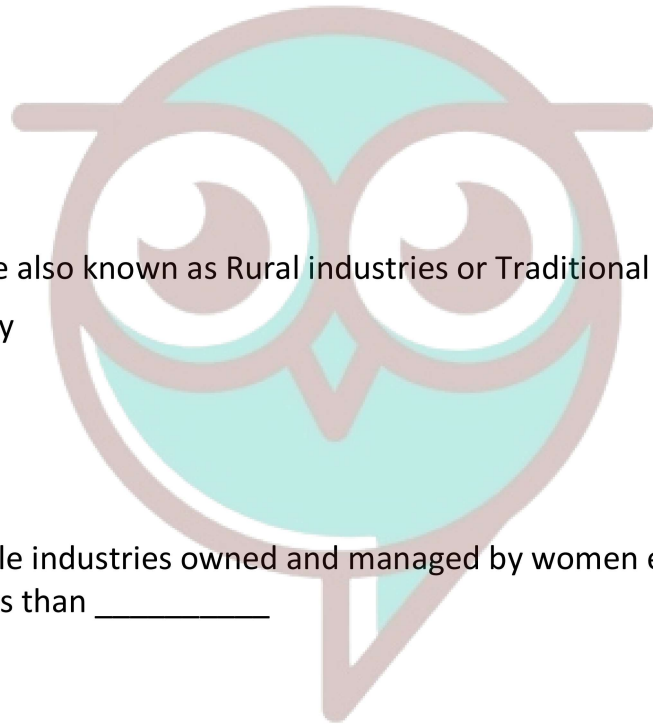
- (a) 20 percent
- (b) 51 percent
- (c) 25 percent
- (d) 50 percent

Question 11. Expand DIC

- (a) Directorate of Industry corporation
- (b) Directorate of Indian Corporation
- (c) District Industries Centers
- (d) None of the above

Question 12. Which of the following is part of the small-scale sector?

- (a) Paper Products and Printing
- (b) Food Products
- (c) Cotton Textiles
- (d) All of the above



Swotters

Question 13. Exemption from paying taxes for 5 to 10 years is known as _____

- (a) Tax Deduction
- (b) TDS
- (c) Value Added Tax
- (d) Tax Holiday

Question 14. _____ is defined as one in which the investment in fixed assets of plant and machinery does not exceed rupees one crore.

- (a) Small Scale Industry
- (b) Limited Companies
- (c) Large Scale industry
- (d) None of the above

Question 15. In India, the 'Village and Small Industries' Sector consists of both traditional and modern small industries. This sector has _____ subgroups.

- (a) Eleven
- (b) Ten
- (c) Five
- (d) Eight

Very Short –

1. Which type of Industry uses family labour and local available talent while running the business?
2. A micro small scale industry has investment of Rs. 24 lakhs and is engaged in manufacturing business. Now, it wants to increase its investment by Rs. 4 Lakhs. What type of small Business will it become and what is the maximum investment limit in such cases?
3. Which type of enterprise is owned, controlled and managed by a woman or a group of women holding share capital not less than 51%?
4. Name areas where SSLs feel threatened from global enterprises.
5. Name any 2 merits of SSLs in the export trade of India.

Short Questions –

1. What different parameters are used to measure the size of manufacturing business?
2. State features of cottage industries.
3. Write the objective of the Marketing Assistance scheme?
4. What is the aim of NSIC?
5. Write any two objectives of establishment of NABARD.
6. Write any three problems of small business in India

7. Define the role of small business in the following area:

- a) Variety of products
- b) Industry output and export
- c) Balance development
- d) Customization

8. On the basis of capital contribution identify the type of SSI from the following:

- a) Capital contribution on plant and machinery is Rs. 9 lakh.
- b) Capital contribution on plant and machinery is Rs. 7.5 crore
- c) Capital contribution on plant and machinery is Rs. 26.5 crore

Long Questions –

1. What are the incentives given by Govt. to the Industries set up in hilly, backward and rural areas.

2. Preet food Industries set up a food and beverages processing plant in the rural area of Haryana and opted for labour intensive techniques due to easy availability of labour and to provide employment to local people. Board of directors decided to invest 50 lakhs to acquire plant and machinery, Rs. 1 crore to buy land, Rs. 20 Lakhs to buy raw material and Rs. 20 lakhs to maintain day to day expenses.

- (a) Name the Act of Industries which is applicable to the above industry.
- (b) Which category of part (a) will the above industry come from?
- (c) State the investment limit in this category.
- (d) What values has been followed by the above company.

3. Board of Directors of "Bio Pure water Ltd." decides to set up its first unit in the hilly area of Himachal Pradesh Company requires Rs. 3 crores for it and Rs. 50 Lakhs for working capital. The company has earned marked 15% of its profit for the Educational and Health needs of its employees and their family members.

- (a) The above company comes under which category as per MSMED Act 2006.
- (b) Write any one commercial reason for setting up a unit in the hilly region.
- (c) According to you, what are the options available to the company for meeting its long term and short term needs.
- (d) what are the values promoted by the company.

4. Explain in detail the problems faced by the small business?

5. SSI's are at a distinct disadvantage as compared to LSI's. Discuss some important areas of SSI which need support.

6. Write notes on the following:

Case Study Questions –

1. Read the following text and answer the questions on the basis of the same:

Neeru was a daily wage labourer when she decided to be her own boss and transformed herself as a successful businesswoman. She started her small scale business of making Pickles using organic fruits and vegetables with total investment of ₹ 10 lakhs along with few of her neighbors using their free time at home. She invested ₹ 2 lakhs by selling her jewellery and using personal savings and ₹ 6 lakhs were contributed by her friends who are members of her business. They named their venture as 'Sakhi Aadhaar'. They launched their new range of pickles using aloe vera, turmeric, and other herbs, for boosting immunity of the users. They were able to supply the entire district. One of the members suggested that they should make herbal candies too. The products made by them were well-liked and appreciated by the people.

(i) Identify the quality of Neeru as an entrepreneur in the above case.

- a) Innovator
- b) Job provider
- c) Risk bearer
- d) All of the above

(ii) Identify the essence of entrepreneurship in the light of the given statement.

“...using organic fruits and vegetables with total investment of ₹ 10 lakhs along with few of her neighbours using their free time at home. She invested ₹ 2 lakhs by selling her jewellery and using personal savings and ₹ 6 lakhs are contributed by her friends who are the members of her business.”

- a) Arranging resources
- b) Risk-taking
- c) Vocational training
- d) Creating job opportunities

(iii) Entrepreneurship is a process of whose actions?

- a) Entrepreneurs
- b) Government
- c) Workers
- d) Capital providers

(iv) Identify the category of small business started by Neeru according to MSMED Act.

- a) Micro enterprise
- b) Small enterprise
- c) Medium enterprise
- d) Cottage industry

2. Read the given text and answer the questions that follow: Sensing the business

opportunities in Food industry, Sagar Bagada after completing his graduation in Agriculture engineering, decided to open his own enterprise. His dream turned into reality when his enterprise, “Swaad Food Industries” set up its food and beverages processing plant in ‘Mitrapura”, one of the rural area of Rajasthan, under Start-up India Scheme launched on 16th January, 2016. The enterprise opted for labour intensive technique, due to easy availability of labour at lower cost. With in no time, he came in the list of successful entrepreneurs.

(i) What is the process of creation of an enterprise known as?

- a) Venture
- b) Project
- c) Entrepreneurship
- d) Business idea

(ii) “The enterprise opted for labour intensive technique, due to easy availability of labour at lower cost.” Identify the need for entrepreneurship satisfied in the given statement.

- a) Organization of production
- b) Generation of employment
- c) Economic efficiency
- d) Generation of business opportunities for others

(iii) Start-up India Scheme was launched on ____ in the year _____.

- a) 16th Jan., 2016
- b) 2nd Oct., 2016
- c) 17th Sep., 2006
- d) 2nd Oct., 2006

(iv) As a successful entrepreneur, identify Sagar’s contribution to the economy is:

- a) Contribution to GDP
- b) Generation of employment
- c) Capital formation
- d) All of the above

MCQ Answers –

1. Answer: (b) Export Oriented units
2. Answer: (b) On May 1, 1978
3. Answer: (c) Ancillary small industry
4. Answer: (c) Quality
5. Answer: (b) Powerlooms

6. Answer: (d) 40 percent
7. Answer: (b) Export Oriented units
8. Answer: (d) 1955
9. Answer: (c) Cottage Industries
10. Answer: (b) 51 percent
11. Answer: (c) District Industries Centers
12. Answer: (d) All of the above
13. Answer: (d) Tax Holiday
14. Answer: (a) Small Scale Industry
15. Answer: (d) Eight

Very Short Answers –

1. Ans: Cottage industries use labour and local available talent while running the business.
2. Ans: Micro. Micro-enterprises are ones with a capital investment of less than Rs. 1 crore, and turnover less than Rs. 5 crore
3. Ans: Woman entrepreneur
4. Ans: The areas are:
 - Quality
 - High-end Technology
 - Financial creditworthiness,
 - Managerial capabilities
 - Marketing capabilities.
5. Ans: The two merits are”
 - GDP and exports: These industries has a significant contribution to the GDP and exports, thus leading to the economic growth of the country
 - Personal touch: Small businesses are known for their artist products, versatility and personal touch, which allows them to maintain positive relationships with customers abroad, thus adding financial value to their business.

Short Answers –

1. Ans: Investment and Turnover limits under MSMEs

As against the earlier bifurcation of MSMEs into manufacturing and service sector, both are treated as one and the same, and are defined under a common metric. The investment and turnover limits are:

The parameters are:

Sector	Investment in Plant and machinery		
	Micro	Small	Medium
Manufacturing and Service	Upto 1 Crore	Upto 10 Crore	Upto 50 Crore
	Turnover		
	Upto 5 crore	Upto 50 crore	Upto 250 crore

2. Ans: Cottage industries are characterised by certain features such as:

- Typically, family labour and locally available skill are used;
- The use of simple and basic tools;
- The capital outlay is minimal;
- Manufacturing of simple products is there, mainly in their own premises;
- The use of indigeneous technology is made to manufacture products.

3. Ans: The objectives are:

- To flourish and enhance the marketing competitiveness of the MSMEs.
- To showcase the competencies of MSMEs.
- To keep MSMEs informed about the current market situation and how it affects their operations. To make it easier for MSMEs to form consortia for the marketing of their goods and services
- To develop a platform for an interaction of MSMEs with large institutional buyers.
- To disseminate/promote various government programmes
- To improve the marketing skills of micro, small, and medium-sized businesses.

4. Ans: National Small Industries Corporation (NSIC) aims at providing:

- To make available indigenous and imported machines on easy hire-purchase terms.
- Source, supply, and distribute raw materials, both domestic and imported.
- To facilitate the export of the products of small business units.
- Mentoring and advisory services.

5. Ans: It has been adopting a multi-pronged, multi-purpose strategy for the promotion of rural business enterprises in the country.

- Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches.
- It offers counselling and consultancy services and organizes training and development programmes for rural entrepreneurs

6. Ans: The problems are:

- Finance: There is limited finance availability with these enterprises that makes the day to day working difficult. Also raising finance from banks is a challenge because of these enterprises' poor credit worthiness.
- Raw materials: Due to unavailability of certain raw materials, these enterprises have to adjust and compromise either in terms of poor quality raw material, or high price raw material. Both situations add to the problems of such enterprises.
- Managerial skills: Business run by a single person or family, which lacks managerial skills, technical skills and entrepreneurial skills. Also due to no education, things become even more difficult. Hence neither they are capable to manage the enterprises on their own, nor they can hire people for such work due to shortage of financial resources.

7. Ans: **(a)** The small businesses produce a wide range of products, including mass-market goods, ready-made clothing, hosiery, stationery, soaps and detergents, household furnishings, handlooms, and handicrafts.

(b) India's small industries account for 95% of the country's industrial units. They account for over 40% of India's gross industrial value-added and 45% of the country's total exports.

(c) These business units can be set up anywhere at any location and region, as they are dependent on locally available resources, simple technology, and labour class people. This facilitates balanced development of the country.

(d) Small businesses are most suited for customisation, which involves tailoring a product as per the needs, tastes, demands and preferences of certain customers.

8. Ans: **(a)** Micro

(b) Small

(c) Medium

Long Answers -

1. Ans: Incentives given by the govt to the industries set up in hilly, backward and rural area are as follows:

- Land: Every state offers plots for setting up industries, however there might be differences in the terms and conditions of each state. For example, some states do not charge rent during the first few years, while others allow instalment payments.
- Power: Power is supplied at a concessional rate of 50 per cent, while some states exempt such units from payment in the initial years.
- Water: Water is provided on a no-profit, no-loss basis or with a 50% discount or five-year exemption from water payments.
- Sales Tax: In all union territories, industries are exempt from sales tax while some states extend exemption for a 5 years period.
- Octroi: Most states have abolished octroi.

- Raw resources: Units in underdeveloped areas are given priority when it comes to obtaining rare raw materials such as cement, iron, and steel.
- Finance: Subsidy of 10-15% per cent is given for building capital assets. Loans are also offered at reasonable rates.
- Industrial estates: Some states encourage setting up of industrial estates in backward areas.
- Tax holiday: Industries founded in backward, hilly, and tribal areas are exempt from paying taxes for 5 or 10 years.

2. Ans: (a) The Micro, Small and Medium Enterprises Development (MSMED) Act of 2006 tackles concerns such as definition, credit, marketing, and technological advancement. Medium-sized businesses and service-related businesses are also covered by these laws. The MSMED Act, 2006 came into force wef., October, 2006

(b) Micro.

(c) Micro-enterprises are ones with a capital investment of less than Rs. 1 crore, and turnover less than Rs. 5 crore

(d) Values followed by the company are as follows:

- Employment generation: The company contributed to the generation of employment opportunities for local people by opting for labour intensive techniques
- Balanced Regional Development: The setting up of food and beverages processing plants by the company in the rural area of Haryana contributed to the balanced regional development.
- Concern for society: The generation of employment, and the development of rural areas highlights the company's concern for the society.

3. Ans: (a) Micro. Micro-enterprises are ones with a capital investment of less than Rs. 1 crore, and turnover less than Rs. 5 crore

(b) Cheap price of land and labour

(c) Bank loans and equity finance.

(d) The following are the company's values:

- Balance Regional Development: The company established its first operation in Himachal Pradesh's hilly region, contributing to the region's development.
- Employee motivation: Employees are motivated by the company's commitment to support their educational and health needs, as well as the needs of their families.
- Job creation: Due to the low cost of land and labour in Himachal Pradesh's hilly region, the corporation opened its first plant there, resulting in an increase in job opportunities.
- Upliftment of rural area: The company has set aside 15% of its profits for the educational and health requirements of its employees and their families in the hilly

region, thereby raising the quality of living and developing the rural area.

4. Ans: The following are some of the issues that small businesses face in rural India:

- **Finance:** Most small businesses start with a low capital basis. Many of the units in the small sector lack the creditworthiness needed to raise finance from the markets. As a result, they rely significantly on local financial resources and are frequently victims of money lenders' exploitation. These businesses usually lack appropriate operating capital, either as a result of late payments or because their cash is locked up in unsold inventories.
- **Raw Materials:** Obtaining raw materials is another big issue for small businesses. Because the essential materials are not readily available, they must either compromise on quality or pay a premium price for high-quality supplies. Due to the little amount of purchases they make, their bargaining power is limited. They also can't afford to incur the risk of purchasing in bulk because they don't have the space to keep the materials.
- **Management skills:** Small businesses are frequently promoted and operated by lone entrepreneurs who may lack all of the managerial abilities required to run the company. Many small business owners have excellent technical understanding, but they struggle to promote their products. Furthermore, they may not have enough time to complete all of the necessary tasks. At the same time, they do not have the financial means to hire competent management.
- **Labor:** Because small businesses cannot afford to offer greater compensation to their employees, employees' willingness to work hard and create more is impacted. As a result, per-employee productivity is poor, and employee turnover is significant.
- **Capacity Utilization:** Many small businesses are forced to run below full capacity owing to a lack of marketing skills or a lack of demand, causing their operating costs to rise. Gradually, this leads to illness and the business's closure.
- **Technology:** The use of obsolete or outdated technology is a severe issue for the small industries, thus resulting in low productivity and insufficient output.
- **Quality:** Due to traditional methods of production, these enterprises struggle to maintain standardized quality.
- **Global Competition:** They have to face competition with large scale industries and multinational companies.

5. Ans: SSI's are at a distinct disadvantage as compared to LSI's, because:

- Multinational corporations, which are giants in terms of size and business volumes, compete not only with medium and big industries, but also small scale industries.
- Quality standards, technological expertise, financial creditworthiness, management and marketing competencies are all difficult to overcome on the part of SSI's.
- Due to the strict standards of quality certification such as ISO 9000, access to markets of developed countries is constrained. These businesses are unduly reliant on

middlemen, who might exploit them by paying cheap prices and delaying payments. They lack the infrastructure required for direct marketing.

Areas where SSI's need support are:

- **Finance:** Most small businesses start with a low capital basis. Many of the units in the small sector lack the creditworthiness needed to raise finance from the markets. As a result, they rely significantly on local financial resources and are frequently victims of money lenders' exploitation. These businesses usually lack appropriate operating capital, either as a result of late payments or because their cash is locked up in unsold inventories.
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- **Technology:** The use of obsolete or outdated technology is a severe issue for the small industries, thus resulting in low productivity and insufficient output.
- **Quality:** Due to traditional methods of production, these enterprises struggle to maintain standardized quality.
- **Global Competition:** They have to face competition with large scale industries and multinational companies.

a) NABARD

b) SFURTI

c) RSBDC

d) DIC'S

e) SIDBI

f) NCEUS

6. Ans: (a) NABARD stands for National Bank for Agriculture and Rural Development, and it is the Indian rural banking system's apex regulatory organisation. It's a development bank with the mission of providing and regulating loans in rural areas. In the Indian rural sector, NABARD promotes and develops agriculture, small scale enterprises, cottage industries, and other rural crafts.

Apart from agriculture, it supports small industries, cottage and village industries, and rural artisans using credit and non-credit approaches. It provides counselling and consulting services to rural entrepreneurs, as well as training and development programmes.

(b) SFURTI was launched by the Ministry of Micro, Small and Medium Enterprises (MSME) to promote MSME cluster growth in the country. It was launched to make the MSME's competitive, lucrative, and sustainable. Also, it works for the provision of long-term job prospects in traditional sectors, as well as to create sustained employment opportunities in traditional industries.

(c) The Rural Small Business Development Centre (RSBDC) is a non-profit organisation that provides management and technical assistance to present and potential micro and small business owners in rural areas. RSBDC has held a number of rural entrepreneurial seminars, skill development workshops, mobile clinics and trainers training programmes, as well as awareness and counselling camps.

(d) The District Industries Centers (DICs) give entrepreneurs all of the services and support they need to start small and village industries. The identification of feasible schemes, the preparation of feasibility reports, the organisation of financing, the provision of machinery and equipment, the provision of raw materials, and other extension services are the main functions of these centres.

(e) The Small Industries Development Bank of India (SIDBI) was established as an apex bank to give direct and indirect financial assistance to small businesses through several initiatives. In comparable operations, it coordinates the functions of other institutions.

(f) The National Commission for Enterprises in the Unorganized Sector (NCEUS) was established to make recommendations for actions that would improve the productivity of small businesses in the informal sector as well as to increase long-term job opportunities, especially in rural areas.

Case Study Answers –

1.

(i) d) All of the above

Solution:

Quality of Neeru as an entrepreneur are:

- Innovator
- Job provider
- Risk bearer

(ii) a) Arranging resources

Solution: Organizing involves assigning tasks, grouping tasks into departments, delegating authority, and allocating resources across the organization. During the organizing process, managers coordinate employees, resources, policies, and procedures to facilitate the goals identified in the plan.

(iii) a) Entrepreneurs

Solution: The Entrepreneur is a change agent that acts as an industrialist and undertakes the risk associated with forming the business for commercial use. The entrepreneurship is a continuous process that needs to be followed by an entrepreneur to plan and launch the new ventures more efficiently.

(iv) a) Micro enterprise

Solution: A micro enterprise is a small business which sells goods and/or services to a local area or a local market. It employs less than 10 people generally and is geographically restricted. Typically a micro enterprise starts with some form of funding – known as micro credit or micro finance.

2.

(i) c) Entrepreneurship

Solution: The process of action, an entrepreneur undertakes to establish an enterprise is called entrepreneurship. It is the process of running, designing and launching a new company or business that is often a small business initially. The individuals who create these kinds of businesses or companies are called entrepreneurs.

(ii) c) Economic efficiency

Solution: Economic efficiency is when all goods and factors of production in an economy are distributed or allocated to their most valuable uses and waste is eliminated or minimized.

(iii) a) 16th Jan., 2016

Solution: Launched on 16th January, 2016, the Startup India Initiative has rolled out several programs with the objective of supporting entrepreneurs, building a robust startup ecosystem and transforming India into a country of job creators instead of job seekers.

(iv) d) All of the above

Solution:

- Entrepreneurs boost economic growth by introducing innovative technologies, products, and services. Increased competition from entrepreneurs challenges existing firms to become more competitive. Entrepreneurs provide new job opportunities in the short and long term.
- Entrepreneurial attitudes are found to stimulate GDP per capita in high-income countries, while entrepreneurial activity is found to have a negative effect in middle/low-income economies.