UNIT-I

INTRODUCTION OF TRADE

BRANCHES OF COMMERCE

Commercial activities may be classified into two broad categories.

1. Trade.
2. Aids to trade.

TRADE:

Trade is a branch of Commerce. It connects buying and selling activities. An individual doe's trade is called a trader. Trader transfers the goods from the producer to the consumer. He earns profit from this activity. Other activities of Commerce such as transport, insurance, warehousing, banking and advertising revolve around the trade. In brief, trade is the nucleus of commerce.

Trade may be classified into

(a) Home trade

(b) Foreign trade.

Home trade may further be sub-divided into wholesale trade and retail trade. Similarly foreign trade may be sub divided into import, export and import trade.

A DESCRIPTION OF THESE TERMS IS GIVEN BELOW:

1. Home trade: Home trade is also known as 'domestic trade' or 'internal trade'. Home is carried on within the boundaries of a nation. Both the buyer and seller belong to the same country. Home trade again is of two types:

2. Wholesale trade: It implies buying and selling of goods in large quantities. Traders who engage themselves in whole sale trade are called 'Wholesalers'. Wholesale serves as a connecting link between the producers and the retailers.

3. Retail trade: It involves buying and selling of goods in small quantities. Traders engaged in retail trade are called 'retailers'. They serve as a connecting link between wholesalers and consumers. Retail trade is the final stage of distribution.

4. Foreign trade: It refers to buying and selling of goods and services between two or more countries through international air ports and sea ports (Foreign trade is also known as 'external trade' or 'international trade'). Foreign trade is again may be classified into three categories as mentioned below:

a. Export trade: It means the sale of goods to foreign countries. F or example, India exports tea to the United Kingdom.

b. Import trade: It refers to the purchase of goods from foreign countries. For instance India buys petrol from Iran.

c. Entrepot trade: It means importing (buying) goods from one country for the purpose of exporting (selling) them to another country. This type of trade is also known as re-exporting trade.

AIDS TO TRADE

Trade or exchange of goods involves several difficulties, which can be removed by auxiliaries a known as aids to trade. It refers to all those activities, which directly or indirectly facilitate smooth exchange of goods and services.

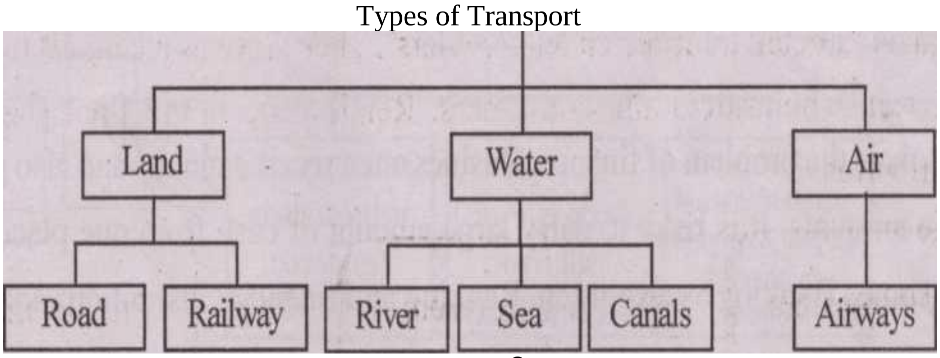
Aids to trade include Transport, Communication, Warehousing, Banking, Insurance, and Advertising. Auxiliaries ensure smooth flow of goods from producers to the consumers.

The various aids to trade in commerce are explained in following points:

1. Transport

There is a vast distance between centers of production and centers of consumption. This difficulty is removed by transport. Transport creates place utility. There are several kinds of transport such as air, water and land transport. The geographical distance between producers and consumers is removed with the help of transport.

Types of Transport



2. Communication

Communication means transmitting or exchange of information from one person to another. It can be oral or in writing. It is necessary to communicate information from one to another to finalize and settle the terms of sales such as prices of goods, discount allowed, facility of credit, etc. Modern means of communication like telephone, telex, telegraph, email, teleconference, etc., play an important role in establishing contact between businessmen, producers and consumers.

3. Warehousing

There is a time gap between production and consumption. In other words, which are produced at one time, are not consumed at the same time. Hence, it becomes necessary to make arrangements for storage or warehousing. Agricultural co- like wheat and rice are seasonal in nature but are consumed throughout the year on other hand, goods such as umbrellas and woolen clothes are produced through year but are demanded only during particular seasons. Therefore goods need to in warehouses till they are demanded. So it creates time utility by supplying the goods at right time to consumer.

4. Insurance

Insurance reduces the problem of risks. Business is subject to risk and uncertainties. These are inevitable in the field of business. Risks may be due fire theft, accident or any other natural calamity. Insurance companies who act as risk cover risks. Insurance tries to reduce risks by spreading them out over a larger number of people.

5. Banking

Banking solves the problem of finance. Businessmen receive money and also pay money in large amounts. It is risky to carry large amount of cash from one place to another. Here comes Banking as a solution. Banking and financial institutions solves the problem of payment and facilitate exchange between buyer and seller businessmen may also require short-term and long-term funds. Banks provide finance to businessmen. Banks also advance loans in the form of overdraft, cash and discounting of bills of exchange.

6. Advertising

Advertising fills the knowledge gap. Exchange of goods and services is possible only if producers can bring the products to the consumers. Advertising helps to the consumer and public important Medias of mass communication. Advertising helps the consumers to know about the various brands manufactured by several manufacturers. The Medias used to advertise products are Radio, Newspapers, Magazines, TV, Internet, etc.

BUSINESS ACTIVITIES

CLASSIFICATION OF A BUSINESS ACTIVITY

Business activities may broadly be classifi4ed into two they are

1. Industry
2. Commerce

MEANING OF INDUSTRY:

The production side of business activity is referred to as industry, it is a business activity, which is related to the extracting, producing, processing or manufacturing of goods.The goods may be consumer goods or producer goods. Consumer goods are the goods, which are used finally by consumers, e.g., Food grains, textile, cosmetics, VCR Etc. Producer's goods are the goods used by manufacturers for producing some other goods, e.g., Machinery, tools, equipment, etc.

CLASSIFICATION/ TYPES OF INDUSTRY:

There are various types of industries. They are described here under

1. Primary Industry

Primary industry is concerned with production of goods with the help of nature. It is a nature-oriented industry, which requires very little human effort, e.g. Agriculture, Farming, Forestry, Fishing, Horticulture etc.

2. Genetic Industry

Genetic industries are engaged, in re-production and multiplication of certain species of plants and animals with the object of sale. The main aim is to earn profit from such sale, e.g., Plant nurseries, Poultry, Cattle breeding, etc.

3. Extractive Industry

Extractive industry is concerned with extraction or drawing out goods from the soil, air or water. Generally products of extractive industries come in raw form and they are used by manufacturing and construction industries for producing finished products, e.g., Mining industry, Coal, Mineral, Oil industry, Iron ore, extraction of timber and rubber from forests, etc.

4. Manufacturing Industry

Manufacturing industries are engaged in transforming raw materials into finished product with the help of machines and manpower. The finished goods can be either consumer goods or producer goods, e.g., Textiles, Chemicals, Sugar industry, Paper industry, etc.

a) **Analytical:** In an analytical industry the basic raw material is broken into several useful materials. For example, in an oil refinery, crude oil is refined and several petroleum products are obtained.

b) **Synthetic:** In this type of manufacturing industry two or more materials are mixed to form a new product. For example, Cosmetics, Soap, Fertilizers, Paint industry etc.

c) **Processing:** In the processing industry, material is processed through various stages. For example, in the textile industry, cotton passes through tie spinning, weaving, dying, bleaching and printing processes.

d) **Assembling:** In this type of industry, manufactured components are combined together mechanically or chemically to new products. Manufacture of T.V sets, watches and automobiles art: examples of assembling industries.

5. Construction Industry

Construction industries take up the work of construction of buildings, roads, dams, canals, etc. This industry is different from all other types industry because in case of other industries goods can be place and sold at another place. But goods produced at one and sold by constructive industry are erected at one place.

6. Service Industry

In modern times, service sector plays an important role in the development of nation and therefore it is' named as service industry. The main industries which fall under this category include Hotel industry, Tourism industry Entertainment industry, etc.

COMMERCE:

MEANING OF COMMERCE:

Commerce is that part of business which is concerned with the exchange of goods services and includes all those activities which directly or indirectly facilitate that exchange. Commerce deals with the distribution aspect of the business. Whatever is produced it must be consumed, to facilitate this consumption there must be a proper distribution channel. Here comes the need for commerce which is concerned with the smooth buying and selling of goods and services. Commerce is a very wide term. It involves the process of bringing goods from the Place of production to the place of consumption. In other words, it supplies goods to ultimate consumer.

DEFINITION OF COMMERCE

According to James Stephenson, "Commerce is an organized system for the exchange of goods between the members of the industrial world."

Commerce can also be defined as "the sum total of those processes which are engaged in the removal of hindrances of person, place and time in the exchange of commodities.

IMPORTANCE OF COMMERCE (or) ROLE OF COMMERCE IN ECONOMIC DEVELOPMENT

The importance of and Commerce is explained with the help of the following points

1. To satisfy increasing human wants

Human wants are never ending. Commerce has made distribution and movement of goods possible from one part of the world to the other. Today we can buy anything produced anywhere in the world.

2. To increase standard of living

Standard of living refers to quality of life enjoyed by the members of a society when a man consumes more products his standard of living improves. Commerce helps us to get what we want at the right time, right place and at the right price and thus help in improving our standard of living.

3. Links between producers and consumers

Production is meant for ultimate consumption. Commerce makes possible to link producers and consumers and consumers through retailers and wholesalers and also through the aids to trade. Thus Commerce creates and facilitates the contact between the centers of action and consumption and links them.

4. Generates employment opportunities

The growth of commerce, industry and trade cause the growth of agencies of trade such as banking, transport, warehousing, insurance, advertising etc. These agencies need people to look after their functioning. Thus, development of commerce generates more and more employment opportunities.

5. Increases national Income and wealth

When production increases, national income also increases. It also helps to earn foreign exchange by way of exports and duties levied on imports.

6. Expansion of aids-to-trade

With the growth in trade and commerce there is a growing need for expansion, modernization of aids to trade. Aids to trade such as banking, communication advertising and publicity, transport, insurance, etc., are expanded and modernized for the smooth conduct of commerce.

7. Encourages international trade

With the help of transport and communication development, countries can exchange their surplus commodities and earn foreign exchange. Thus, commerce ensures faster economic growth of the country.

8. Benefits to underdeveloped countries

Underdeveloped countries can import skilled labour and technical knew, how from developed countries, while the advanced countries can import raw materials from underdeveloped countries. This helps in laying down the seeds of industrialization in the underdeveloped countries.

9. Helps in emergencies

During emergencies like floods, earthquakes and wars, commerce help - in reaching the essential requirements like foodstuff, medicines and relief measures to the affected area.

ROLE OF BUSINESS IN SOCIAL DEVELOPMENT:

Every human being has wants some people require more goods than others. The demand for goods and services is related to the stage of social development and the buying capacity of the people. The under developed countries have more emphasis on necessities; whereas developed countries have more demand for luxuries. The business plays an important role in social development. It creates wealth for the society.

It provides means of livelihood by creating job opportunities. People do not get direct employment only but many are benefited through indirect opportunities too. People depend upon what the business is producing. The standard of living of the people is also linked to the growth of business. If these are quality goods then people will be benefited by their use.

In a way social development and business activity are dependent upon each other. They help each other to grow. The demand for products will enable business to produce more and. more. On the other hand, the development of business will improve social set up and will help people to raise their standard of living. The development of business is desirable for social development.

BUSINESS CAN HELP SOCIAL DEVELOPMENT IN THE FOLLOWING WAYS:

1. **LARGE SCALE PRODUCTION:**

   The demands of the people are unending, the satisfaction of one demand leads to the desire for another. The demand will be satisfied only if the goods are produced on a large scale. In the present stage of development, international trade has taken the place of local and national trade. There are multi-national companies which produce goods for world markets. The consumers all over the world are able to get quality goods at comparatively cheap rates. The large scale production is possible at cheaper rates due to economies in production and distribution. The society' is greatly benefited by large scale production of goods and helps in uplift of the weaker sections of society by creating employment potentialities.

2. **GROWTH OF MIDDLEMEN:**

   With the invent of large scale production, the gap between the consumer and the producer has widened. There is a need to bridge this gap by bringing in people who will act as middlemen. A class of middlemen has developed which performs a number of services both for the producers and the consumers. The middlemen facilitate the supply of goods produced anywhere in the world. This has made possible the consumption of goods w'hich otherwise could not have reached the consumers. The present distribution system has greatly helped in the development of the society.

3. **IMPROVEMENT IN STANDARD OF LIVING:**

   The growth of business has enabled an improvement in standrad of living of people. The increased production of goods means more consumption and better standard of living. Increased business activity also leads to more employment and ultimately to more purchasing power with the people. Better income and purchasing capacity will help people in having a better life.

4. **MECHANISATION AND STANDARDIZATION :**

   The development of business has led to mechanization and standardization of goods. Mechanization leads to better and improved methods of work. There will be need for skilled workers the workers will be given training to run new machines there will be a qualitative improvement in working methods and working conditions. The salary structure of workers will also improve the mechanism will lead to standardization of products the quality of goods will also improve on hand, there will be a qualitative improvement in working conditions and on the other hand there will be better quality goods in the market . All these factors will lead to social improvement.

5. INFRASTRUCTURAL FACILITIES:

The development of business requires the creation of infra-structural facilities. The government helps in providing facilities such as roads always and other means of transport, general and technical education, power, etc. Once these facilities are created these are used not only by the business but also by the society.

6. INCREASE OF GOVERNMENT INCOME:

The development of business brings more tax revenue to the government. The government is able to spend more money on the welfare of society. Business, thus, indirectly helps in increasing welfare activities and improving the standard of living of the people.

7. CREATING EMPLOYMENT OPPORTUNITIES:

Business is an important source of employment. People do not get jobs only in factories but indirect employment is also created. The services sectors such as transport, insurance, banking etc. get a boost in their work with the increased business activity. The higher the rate of growth of business the higher will be the employment opportunities. The developing countries like India need a Philip in business development so that more and more employment opportunities are created.