



- Secondary Sector
  - Manufacturing Industry
- Tertiary Sector
  - Service

Primary → secondary transition is called Industrialization  
Benefits – increase in GDP – Gross Domestic Product

GDP is the value of all the products or total output produced within a country over a period of time.

- income per head increase, increasing living standards.
- employment as more jobs are created.

drawbacks – pollution

- urbanization – damages population balance
- inflation

Secondary → Tertiary transition is called Deindustrialisation

Private sector – private individuals control, own and finance the organizations.

Public sector – owned and controlled by government

Private sector – Sole traders

- Partnerships
- Limited companies
  - Private Ltd. Co.
  - Public Ltd. Co.

## **DEFINITIONS**

### **1. BUSINESS ACTIVITY**

It is the transformation of resources (raw material and human resource) into products (goods & services) to satisfy the needs and wants of customers. The main aim for any business is profit – making.

### **2. OPPROTUNITY COST**

This is the next best choice given up in favour of the alternative chosen from two choices. E.g. If a business has a choice of purchasing new premises or new machinery and it also has the ability to buy these but chosen new machinery because of its greater utility, then the premises is the cost opportunity.

### **3. FACTORS OF PRODCUTION**

They are the resources necessary for the production of goods and services. There are four factors of production as follows:

- a. Land: These includes all renewable and non-renewable resources (raw material) including water (fish), forests, coal, oil and minerals.
- b. Labour: The human resource required in the development of products e.g. for running machinery i.e. the employees of the business.
- c. Capital: The finance (money) invested by the owner to start a business e.g. machinery & rent.
- d. Enterprise / Entrepreneur: An organization or individual that takes risk to start a business by initial investment.

### **4 CONSUMER GOODS**

These are the tangible goods (that can be felt) which are sold to the general public. This include durable and non-durable goods. Durable goods such as machinery, garments and mobiles can last for a long time while non-durable goods such as edible things soon become damaged.

### **5. CAPITAL GOODS**

They are physical products, manufactured specifically to be sold to other industries for the production of other goods and services like commercial vehicles.

### **6. SERVICES**

They are non-tangible products for the public to satisfy their wants. They could be commercial or personal. Commercial services include banking, insurance, transportation which are done on a large scale. Personal services are one-to-one services such as hair-dressing, teacher and lawyer.

### **7. PRIAMRY SECTOR**

Also called extraction industry. These include firms involved in activities to extract the natural resources of the earth e.g. mining, fishing and agriculture. These will give with the resources (raw materials) for production of goods and services.

## 8. SECONDARY SECTOR

Also termed as Manufacturing industry. These deals or includes firms and industries that process the raw materials extracted by the primary sector into finished goods to satisfy the needs and wants of customers e.g. Steel Industry, Textile Industry & Food Industry.

## 9. TERTIARY SECTOR

Another name is the service sector. They include firms and industries that provide services to other firms or customers belonging to the general public e.g. retailing, banking, teaching, consultants.

## 10. PUBLIC SECTOR

The firms in this business are owned, controlled and run purely by the government. They are usually financed by the taxes. e.g. Pakistan State Oil. Usually these firms might be too important or strategic to left to the private owners. e.g. certain health and education institution services may have to be given for free to the poor sector of population that private sector wont usually provides.

## 11. PRIVATE SECTOR

The firms are owned, controlled and run by private individuals who have profit as the main objective. Most business fall in this category. The sizes of businesses vary sole traders, partnerships, limited companies are all included in this sector.

## 12. INDUSTRIALISATION

The increase in the importance of the secondary sector against the primary sector usually in developing countries is industrialization. This means an overall increase in the level of and value of output as well as ratio of working force in the manufacturing industry. This results in increased GDP and higher living standards.

## 13. DE-INDUSTRIALISATION

It is the rise in the importance of tertiary sector and decrease in the importance of secondary or manufacturing sector. It occurs mostly in developed countries. This means that the value of service sector increases. De-industrilisation reduces competition with developing countries and has more specialized jobs for educated people that are more interesting.

## 14. BUSINESS FUNCTIONS

They are the activities that occur in a business and are controlled and directed by the business management. They are necessary for the efficient running of the business as well as production. The different functions are:

- a. PRODUCTION: This deals with the actual manufacture of goods / products demanded by the customers. It requires co-ordination of all resources to produce the best product at lowest cost.

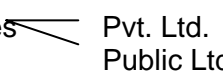
- b. RESEARCH & DEVELOPMENT: It is to find out the exact requirements of customers as to the product and its price through market research. It also includes finding the right market segment to be aimed.
- c. FINANCES: The finance and accounting function is the allotment of relevant funds for each and every function as well as to keep record of all incomes and expenses and the profits or losses.
- d. MARKETING: This function involves the 4 Ps. Product & Packaging which is the development of the actual product as demanded by the customers and within an attractive packaging suitable for the segment aimed as well as keeping the product safe. Promotion of the product through advertising so the information of a product reaches the target audience. Charging the correct price is also necessary so that customers buy and profits are also made. And selling at the correct place is necessary too.
- e. ADMINISTRATION: It is the physical office environment that ensures efficient working of different functions in co-ordination as well as good communication.
- f. HUMAN RESOURCE: It deals with the recruitment and appraisal of employees to maintain correct standards of working in the company. Its function is identification of vacancy, finding a suitable employee and conducting training workshops.

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**QUICK TIPS:**

**BUSINESS ORGANISATION**

Private Sector

- Sole trader
- Partnerships
- Limited Companies 
  - Pvt. Ltd.
  - Public Ltd.
- Joint ventures
- Co-operatives
- Franchises
- Holding Companies
- Multinationals
- Charities / Non-profit Organization

Public Sector

- Central Government Organization
- Local Government Organization

Deed of Partnership

- profit and loss sharing
- bonuses
- salary
- requirements of each partner

Partnerships can be limited only upto 20 people

In limited partnership one or more persons have unlimited liability. The others are sleeping partners while unlimited responsibility holding partners take all decisions.

Capital sources are still few as compared to Ltd. companies.

Limited Companies – common to both types

- shares are sold i.e. ownership is shared
- 1 limited liability – liable only to investment
- 2 separate, legal identity  
owners and business are separate i.e. the company has a separate name. so rewards and suring is on the company
- 3 continuity – in case of death of any shareholder, the business doesn't stop but continues.

Differences:

1. the public limited co. shares are sold to general public through stock exchange. But Pvt. Ltd. co. shares are only sold to family members or friends. Risk of takeover of plc. is more
2. AGMS are not in pvt. Ltd but only in plc. KSC 100 means 100 top companies, i.e. those which are most active traders to their share prices increase or decrease affects a lot. Bullish is trend increase in share price. Bearish trend decrease in share prices plc – devoice between ownership and control
  - avoiding risk of takeover
  - minimise losses.

Menu of Ass

[youtube.com/c/MegaLecture/](https://www.youtube.com/c/MegaLecture/)

+92 336 7801123

Name, Address, Authorized Share Capital  
Basic Aims  
Articles of Ass  
No. of Directors, AGM  
Prospectus – basically an advert

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**QUESTION:**

Q. Why might a private limited company be converted into a public limited company?

Ans. A private limited company is one in which shares are sold only to friends and family while the shares of a public limited company can be sold to the general public through the Stock Exchange. This is the main reason for a private limited company to be converted into a public limited company or plc.

The issue of shares to the public can raise very large sums of capital (finance). This can prove very beneficial for the owners of a rapidly expanding private ltd. company who need finance in a short period of time. This means that alongwith having all the advantages of a private limited company, like limited liability and separate legal identity, a plc. also has a Stock Exchange listing.

So the business can not only sell shares to the general public but the flexibility of shares is an additional attraction to the shareholders. Due to this flexibility, the shareholders can quickly sell their shares (transferring of shares) if they wish to, which is not possible for the shareholders of a private limited company.

Then finally the owners of the private limited company who are converting to a plc. also know that once their aims are fulfilled, they can convert back to a private limited company.

The additional capital is not only used for expansion but to increase efficiency by modernizing and buying new machinery. It could also be used to diversify by take-over and mergers or starting a different product type.

Q. Why might a public limited company be converted to a private limited company?

Ans. There are several reasons for a plc to be converted to a private limited. The major reason is the divorce between ownership and control. Due to the large amount of shares sold, the number of owners increase, meaning that the original owners will not be the sole investors. Then the control or management of a plc is in the hands of the board of directors (BODs) selected at the annual general meetings (AGMs). So the original owners could feel that they have lost control of the business and to regain it may wish to convert to a private limited company.

The risk of takeover of a plc is very high as shares are sold to the public and if one group controls more than 51% of shares, then ownership may change hand. However this risk is very minute in a private limited company.

Also the plc's trend to have short term aims due to the investors only being interested in quick gains. So if the original owners of the plc foresee the business going into losses due to damage to long-term investment plans, then they may convert back to a private limited company to minimize losses.



**QUICK TIPS:**

**Co-operatives**

Workers retail / consumer – associations made by retailers  
manufacturing service

members that work for mutual benefits and have shares but vote is only one for a members  
slightly informal in nature.

**Retail:** They can buy together from the wholesaler so get better discounts.

Holding Company is a firm that buys shares of several companies. They control the shares i.e. if they expect shares price to rise they sell the shares and if they expect prices to drop they buy. They can also sell the assets as they are part owners.

**Charities** – non – profit organizations. Work on donations and charities – welfare and distribution of products.

**PUBLIC SECTOR**

1. Central Government Organizations  
Defence, Central Bank
2. Local - WAPDA  
State Bank – gives regulations such as interest rates  
installments  
leasing rates  
commercial banks must follow these

**Economic system**

An economy is a framework or system that attempts to tackle and solve the basic economic problem of scarcity i.e. what should be produced, how should it be produced and for when should it be produced. To make these decisions different countries have different economic systems.

1. Market Economy / Free / Price – private ownerships – resources are allocated according to consumer demand – profit motive
2. Planned Economy / Command
3. Mixed

necessities are produced lesser while business are in greater amount. No direct government intervention, prices are set by the market forces – demand & supply.

**ADV**

- consumers sovereignty
- more efficient utilization of factors of production
- effective labour
- increased competition – low price – low inflations
- more variety – better quality products

**DISADV**

- less necessities and more luxury goods
- large gap between rich and poor no equal dist
- formation of monopolies – increase price – inflation and fall in living standards.

Q. Explain the differences between a sole trader and a partnership.

Ans. A sole trader is an individual or a single person who owns, controls and runs the business. The partnership, on the other hand, is a business owned and controlled by two or more (upto 20) members called partners.

The sole trader invests all the capital into the business due to which the capital is limited only to the owners savings, profits and any other income source. The sole trader also gets to keep all the profits or is liable for all debts. In a partnership, more capital is available as more people are investing. The profits made and any losses incurred are shared among the partners. Also there are greater chances of expansion in a partnership as compared to sole traders.

A sole trader is the only person who owns and so has to take care of all aspects like marketing, accounting i.e. he / she might have to do things he / she is not good at. But in a partnership, greater chances of specializations are available as the different partners may specialise in different areas of business functions.

Even though both sole traders and partnerships have unlimited liability, there is a limited partnership. In this one member has unlimited liability and so runs the business while the others are sleeping partners and have limited liability.

For the sole trader business, if the owner becomes sick or takes a holiday, the business stops working while in a partnership, the other partners can take care of the business and keep it running in case of unfitness or absence of a partner.

Then if a problem arises for a sole trader, he has no one to discuss it with and financial costs of the consultants would be too high. But in a partnership, the partners can discuss problems amongst themselves and may come up with a solution without the need of any advisors.

Also since partnerships are larger than sole traders and work on a greater scale so they could even benefit from the economies of scale. Therefore, it means that the average cost of running a partnership could be lower than sole traders in general.

Since a sole trader is single person, he is able to establish close relations with his customers. He talks directly to them and enjoys their confidence. Therefore, a sole trader can meet the exact expectations of the customers. But in a partnership, due to greater number of people working together, the personal contact with the customers might be difficult and a subordinate would have to be employed into talk with and deal with the customers.

A sole trader also is able to do a work of his own choice and gain personal satisfaction from it while in a partnership, all the different partners must agree one sort of business regardless of their personal interests and satisfaction.