

S.2 REVISION : COMMERCE QUESTIONS AND ANSWERS

1) What is the meaning of the term *Commerce*?

- It is the study of the way through which goods and services are distributed from the producers to the final consumers. It can also be defined as the study of *Trade and Aids to trade*.

2) What is the meaning of the phrase *Aids to trade*?

- It refers to the services that facilitate the smooth running of trade. These services include: - Transport, Banking, Advertising, Ware housing, Insurance, Market research and Communication.

Market research;

- It involves producers carrying out investigations regarding consumers' opinions and attitudes towards certain goods and services.

Banking;

- It is the provision of safe custody to the funds received from the public. This service is rendered by Banks.

Advertising;

- It is the publishing of information to the consumers regarding the availability of given products on market to stimulate sales.

Transport;

- It involves the movement of goods and services from one place to another through various modes.

Ware housing;

- It is the protection afforded to the raw materials, semi-finished and finished products from the time when they are not needed until when required for processing or consumption.

Insurance;

- It is a fund into which individuals or organizations that are subjected to a certain risk pay a certain contribution (premium) from which those who suffer loss are compensated.

Communication;

- This involves the transfer of business information from one businessman or firm to another.

3) What are the reasons for studying commerce in secondary schools?

- To provide students with knowledge that helps them understand the business environment.
- To act as a foundation for studying other subjects at a future date.
- To encourage students develop neatness and orderliness in their work.
- To enable students appreciate some policies put in place by the government e.g. privatization.
- To equip students with the knowledge of the commercial language used in business.
- To provide students with the knowledge of auxiliary services that makes trade easier.
- To enable the students pick interest in current affairs in the country. For instance information relating to foreign exchange rates, inflation extra.

- To equip learners with skills that will enable them secure employment opportunities for instance as commerce teachers.
- To equip students with marketing techniques to succeed in their ventures.
- To enable students become wise consumers of business products and services.
- To arouse the learners desire and attitudes to work as a group since some businesses presently take the form of partnerships and companies.
- To enable students understand when professional legal advice is needed.

4) What are the functions of commerce?

- ✓ It bridges the gap between the producers and the final consumers.
- ✓ It encourages countries to specialize in the production of goods that utilizes the available resources.
- ✓ It promotes international trade hence enabling countries to exchange goods amongst themselves.
- ✓ It enables the public to get information concerning the availability of goods on market.
- ✓ It enables the people to get a variety of goods from different countries hence improving on their standard of living.
- ✓ It enables business men to acquire capital to invest in their firms due to the availability of banking services.
- ✓ It provides employment opportunities to the people eg. exporters, retailers etc.
- ✓ It creates utility by ensuring that goods and services reach the final consumers in the rightful place and at the rightful time.
- ✓ It leads to quality improvement in the products as a result of the competition created amongst the various producers.
- ✓ It promotes interdependence among countries which strengthens trading relationships amongst them.
- ✓ It helps to instill confidence in the traders since they are assured of being compensated in case of any loss due to the availability of insurance services.

5(a) what is production?

It is a process that involves the transformation of inputs into outputs to satisfy human needs. It may also refer to the creation of utility. *Utility* refers to the ability of a good or service to satisfy human needs.

(b) Define the term economic resources and explain the various types of these resources.

"Economic resources are those scarce resources which help in the production of goods and services . These are alternatively known as the factors of production.

The economic resources are classified under two main heads;

- **Property resources**
- **Human resources**

(a) **Property Resources:** In property resources, we include land and capital. The term **land** is used to describe all natural resources which are used in the process of production and yield income. These resources which are free gifts of nature include agricultural land, forests, mineral deposits, fisheries, rivers, lakes, oil deposits; etc. The reward for land is rent.

The term **capital** refers to all man made resources which aid to production. Thus machinery, equipment, tools, factories, storage, transportation, etc., which are used in the production of new goods and supplying them to the ultimate consumers are capital resources. The reward for capital is interest.

(b) Human Resources: Human resources include labor and entrepreneurial ability. **Labor** refers to human effort, physical and mental which is directed to the production of goods and services. Thus factory worker, clerk, typist, teacher, doctor, Judge, physicist, etc., fall under the category of labor.

It is the services of labor which are bought and sold for money and not the labor itself. Labor is rewarded by salaries and wages for skilled and unskilled labor respectively.

Entrepreneur or Enterprise:

➤ The **entrepreneur or enterprise** is the person who takes initiative and combines resources for the production of goods and services. Hence Entrepreneurship is the ability to organize and co-ordinate other factors of production during the process of production. Entrepreneurship is rewarded by profits. Among the role of Entrepreneurs include:-

- ✓ Making policy decisions of the firm.
- ✓ Introduction of new products in the market, new techniques of production.
- ✓ Coordination and organization of other factors of production.
- ✓ Bearing of risks.
- ✓ Employing and rewarding other factors of production.
- ✓ Financing and initiating the production process.

(c) What is the difference between Direct and indirect production?

Direct production involves the transformation of goods and services for one's own consumption where as **indirect production** involves the transformation of goods and services for exchange. The former takes the form of subsistence production where as the latter takes the form of market or commercial production.

(d) Explain the various stages of production and give examples in each case.

There are three stages of production:-

- Primary production.
- Secondary production.
- Tertiary production.

➤ **Primary production;**

- It is a stage of production that involves extraction of resources from nature. It is also termed as extractive industry. It includes activities like; minning, agriculture, fishing etc.

➤ **Secondary production;**

- It involves the transformation of raw materials provided by nature into a better form. Value is added on the product hence making it yield high utility e.g. changing cotton into cloth. It includes both manufacturing and construction activities e.g. food processing, oil refining, soda making, fish canning, house building, road construction, etc.

➤ **Tertiary production;**

- This stage involves the provision of services. It is also termed as service industry or service trade. This stage starts after the completion of the production of goods. It involves provision of commercial services like transport, advertising, insurance e.t.c. and Direct services e.g. hair dressing, teaching, e.t.c.

(e) What is the meaning of the following;-

- i. Substitutes.
- ii. Complementary goods
- iii. Capital goods
- iv. Consumer goods
- v. Perishable goods

Solutions:

i. Substitutes;

- It refers to commodities which serve a similar purpose e.g. close up and delident. when the price of one increases relative to the other, the quantity demanded of the one whose price is high will reduce and vice vasar.

ii. Complementary goods;

- These are goods which are consumed together/simultaneously consumed e.g. car and petrol, mobile phone and air time, radio and dry cells among others. An increase in the price of one is likely to reduce the quantity demanded of another.

iii. Capital goods;

- These are already produced goods that are used in the production of other goods e.g.tractors, computers, Raw materials e.t.c.These are also referred to as producer goods.

iv. Consumer goods;

- Are goods which have reached their final stage of production and ready for final use by the consumer to derive his or her satisfaction e.g. Bread, shirt, shoes e.t.c.

v. Perishable goods;

- These are goods which are likely to go bad very fast unless consumed in time e.g. fish, tomatoes e.t.c.

7(a) Define the term demand.

- It defined as the quantity of goods that a consumer is willing and able to buy at a particular period of time at a given price. It can also refer to one s desire for a commodity backed by financial ability to acquire it.

(b) Explain the factors that determine quantity demanded.

- **Price of the commodity;** High prices reduce quantity demanded and the reverse is true.
- **Consumer s income;** More quantities of goods are demanded at higher income levels than at lower consumer income levels.

- **Consumer's tastes and preferences;** High consumer tastes and preferences for a given commodity increases its demand and vice versa.
- **Population;** A high population in an area increases demand for goods and services as compared to a small population.
- **Seasonal factor;** Demand for certain commodities increases with season for instance, the demand for rain coats increases during the rainy season.
- **Rate of advertising;** High levels of advertising increases demand for goods and services as compared to lower levels of advertising.
- **Quantity of money in circulation;** when too much money is in circulation, the demand for goods and services will increase and vice versa.
- **Government policy;** the government policy of subsidization increases demand for goods and services where as the policy of taxation increases the final prices of goods hence reducing effective demand.
- **Consumer's expectations of price changes;** When the consumers speculate a fall in prices in the future, they will buy less at present and buy much in the future when prices fall further. The reverse is equally true.
- **Price of substitutes;** these commodities tend to serve the same purpose e.g. meat and fish. In case the price of one falls relative to the other, the quantity demanded of that commodity whose price had fallen will increase and vice versa.
- **Price of complements;** these are commodities that are demanded jointly e.g. car and petrol. A change in price of one affects the quantity demanded of the other, for instance an increase in the price of cars will lead to a reduction in the quantity demanded of petrol.
- **Consumer's habit or addicted;** consumers who are addicted to consuming certain products tend to consume almost the same quantity of goods despite of the price changes.
- **Income distribution;** Even distribution of incomes among the population increases demand for goods and services and vice versa.

8(a) Define the term consumption?

(b) Explain the factors that determine the level of consumption.

Solution;

(a) **Consumption** refers to the buying of goods and services to be put to final use by the consumers to satisfy their needs.

(b) *The factors to the previous question 7(b) also applies here*

9(a) what is supply?

(b) Explain the factors that determine the supply of goods and services.

Solution;

(a) **Supply** refers to the quantity of goods that sellers are willing to put on the market at various prices at a given period of time.

(b) *The determinants of supply includes;*

- **Price of the commodity;** High quantities of goods are supplied at high prices than at low prices.
- **Level of technology;** Low levels of technology used in production reduce quantity supplied and high technological levels increases quantity supplied.
- **Weather conditions;** Favorable weather conditions especially in the agricultural sector increases quantity supplied and less will be supplied when weather conditions are not favorable.
- **Number of producers;** a big number of producers increases quantity supplied than when the number of producers is small.
- **Demand;** High demand for goods and services increases quantity supplied where as low demand limits market hence low quantities supplied.
- **Free entry of firms into the industry;** high restrictions to entry of new firms into the industry reduces quantity supplied and vice versa.
- **Political environment;** political stability encourages hard work hence increases quantity supplied which is not the case in situations of political instabilities.
- **Size of market;** High quantities of goods will be supplied when the market size is big than when the market size is small.
- **Government policy;** High taxes levied from producers tend to discourage them hence reduces quantity supplied and vice versa.
- **Transport and communication system;** Efficient and effective transport system increases supply of goods and services and vice versa.
- **Goal of the firm;** It its to maximize sales and improving welfare, supply will be high. However, if the goal of the firm is profit maximization, the firm will produce less and sell at high prices in order to maximize profit.
- **Cost of production;** High cost of production discourages producers thus leading to reduced supply and the reverse is equally true.
- **Gestation period;** when the harvesting period of the commodity is short enough, its supply will be easy to increase but if it s too long, supply will take long to be increased.

10(a) Define term specialization and explain the various forms of specialization.

(b) What are the advantages and disadvantages of specialization?

Solution;

(a) **Specialization** refers to the concentration of an individual or country on performing a given task which he/she can do best and leave the other tasks to be performed by others. It s different from division of labor in that **division of labor** refers to the concentration of an individual on one task in production process of a commodity.

Specialization takes the following forms:-

- ❖ **Specialization by commodity;** Refers to the concentration of an individual or country on the production of a given commodity on a large scale and exchanging it with others.
- ❖ **Specialization by process;** Its one where by an activity or process is broken down into various stages and each stage being managed by different individuals or specialists.
- ❖ **Specialization by region/area;** Its where a particular region concentrates on production of what it can do best due to the available resources and exchange with what others can produce.
- ❖ **Specialization by skill;** In this form, individuals concentrate on activities they can do best depending on their skills, talents or professional training.
- ❖ **International specialization;** This is specialization among countries where by each country concentrates on the production of a commodity according to the law of comparative advantage.

(b) The advantages of specialization includes among others;

- It leads to time saving since an individual does the work that she/he knows best.
- It increases on the skills of an individual due to repetition of the same task.
- It promotes personal initiative in the work since an individual does the work which is best suited to him or her.
- It results into less fatigue among workers since they become used to doing the same task repetitively.
- It encourages the use of machines on large scale production which promotes production of quality out put.
- It leads to massive out put since it involves use of machines and skilled man power.
- It leads to promotion of social understanding amongst the employees since it encourages team work especially under specialization by process.
- It helps to build self confidence among the workers since they become independent in their areas of specialization.
- It leads to discovery of new and simple methods of production since workers identify hindrances in the production process and comes up with immediate solutions.
- It encourages exchange of goods among countries hence enabling the citizens to get a variety of goods from different countries.
- It results into more job opportunities since work is divided into stages which may necessitate employment of many workers.
- It encourages the countries to fully exploit the available resources to produce the required goods hence promoting development.

The disadvantages of specialization include;

- Doing the same task repeatedly makes work monotonous and boring.
- It leads to loss of craftsmanship because an individual concentrates on one particular task which he can do best.
- It makes labor immobile and inflexible which places it to a risk of unemployment in case it is laid off.
- Over exploitation of resources will lead to their depletion hence affecting the development of the country.
- In case of over production, a country may be affected negatively due to the fluctuations in the prices of the products on the world market.
- It may cause work to come to a stand still in case of the absence of one specialist in the production process.

- It creates dependency syndrome which may be dangerous if countries develop some misunderstandings.
- The use of machines in the production process may cause unemployment in an economy with many people since machines require few workers to operate them.
- In case of the occurrence of natural calamities, a country that specializes in the production of a given commodity will be affected seriously.
- It makes it hard to change from one line of production to another because this may require purchasing new machines and retraining of the labourforce.

11(a) Distinguish between the term location and localization of an industry?

(b) Explain the factors that influence the location of an industry.

Solution;

(a) **Location of an industry** refers to the physical area where an industry is established or site where an industry is placed *where as localization of an industry* refers to the concentration of an industry in one geographical area.

(b) **The factors that influence the location of an industry include among others:-**

- ✓ **Availability of Water;** industries which use water as a raw material e.g. those which produce soft drinks should be established near a source of water.
- ✓ **Availability of Power;** Nearness to source of power or availability of power supply in an area will reduce the cost of production. Large scale industries e.g. steel rolling mills should be located in an area with cheap, abundant and reliable power supply.
- ✓ **Availability of Labor;** Efficiency of labor is an important factor affecting location of industry. Areas with cheap, abundant and skilled manpower will attract many industries.
- ✓ **Good government policies;** Government policies might influence the location of industry. A favorable government policy will improve the location of industry as funds and other forms of incentives will be given to the industry for the purchase of raw materials. The government can decide to locate an industry in an area to achieve balanced industrial development.
- ✓ **Availability of raw materials;** Inputs in the production process should be located near the industry in order to reduce on the transport costs. This is more so with inputs which are bulky.
- ✓ **Availability of land;** Areas which are spacious enough to provide enough land for expansion tend to attract many firms.
- ✓ **Good transport and communication net work;** Areas which are accessible to good transport and communication network tend to attract industries.
- ✓ **Availability of capital;** the availability of capital especially financial capital which is instrumental in the procurement of inputs can influence the location of an industry in an area.
- ✓ **Availability of infrastructures;** the availability of facilities like Banking, Insurance, Ware housing e.t.c tend to promote the location of an industry in an area.
- ✓ **Favorable climatic conditions;** this will Marjory influence the location of industries that deal in agricultural products.

- ✓ **Nearness to market;** industries tend to be located near the consumers of the business products to reduce on the transport or distribution costs which may erode the firms products.
- ✓ **Political stability;** areas with a conducive political climate tend to attract more industries than areas which are politically unstable.

12. What are the advantages and disadvantages of industrial concentration in one geographical area?

Solution; It requires the advantages and disadvantages of localization.

The advantages of industrial concentration in one geographical area include:-

- It leads to the provision of employment opportunities to the people in the area.
- It leads to the development of subsidiary industries which provide market to the main industry.
- It leads to interdependence between firms due to the sharing of same facilities and market.
- It leads to the development of infrastructures in the area like hospitals, roads, banks e.t.c. which are vital for development.
- It promotes urbanization which is significant in breaking the traditional rigidities that hinder development.
- It promotes competition among firms which enhances the production of quality output.
- It increases government revenue through taxing these industries.
- It promotes joint research hence reducing the cost of production for the firms in the industry.
- It leads to international reputation of the area hence attracting tourists which increases foreign exchange in the country.
- It leads to the creation of market for the raw materials and finished products since a big population is attracted in the area.
- It increases the supply of skilled manpower in the area to work in the industry hence promoting development.
- It improves on the standard of living of the members in the area since they are exposed to a variety of goods at cheap prices.
- It becomes easy for firms producing related products to merge and expand their operations hence enjoying economies of scale.

The disadvantages of industrial concentration in one geographical area include:-

- ❖ It promotes regional imbalances where some areas remain behind in terms of development.
- ❖ It increases the cost of living due to increased competition for the available facilities like food, shelter e.t.c
- ❖ It leads to congestion and overcrowding in the area hence causing slum development in the area.
- ❖ It leads to the pollution of the environment by the fumes produced by the industries.
- ❖ It results into traffic congestion in the area hence increasing the rate of accidents.
- ❖ It may cause a country to over depend on one particular region which may be dangerous in case this area is affected.
- ❖ It promotes rural-urban migration which affects agricultural development.
- ❖ It leads to unemployment in the area due to the failure of the existing industries to absorb the increased labor force in the area.
- ❖ It may cause the new firms to be out competed hence leading to their closure.
- ❖ It leads to pressure on the existing infrastructures like schools, hospitals e.tc due to the high population.
- ❖ It leads to the displacement of the people due to the increased need for industrial development.
- ❖ It leads to a break down of the traditional norms and customs due to increased infiltration of various cultures in the area.
- ❖ It leads to exhaustion of resources due to increased production activities.

13(a) what is delocalization?

(b)What are the reasons in favor and against delocalization?

Solution;

(a) **Delocalization** is the dispersion of an industry or firms to different parts of the country.

The following are the reasons in favor of delocalization:-

- ✓ It encourages balanced industrial development because of the spread of the industries throughout the country.
- ✓ It improves on the standard of living of the people in the rural areas due to the extension of employment opportunities to them through the industries constructed.
- ✓ It reduces the social costs and evils that are associated with localization like traffic congestion.
- ✓ It reduces the problem of rural-urban migration.
- ✓ It leads to increased utilization of redundant resources like land which would otherwise be idle.
- ✓ It reduces on the magnitude of loss which could have resulted in the event of an outbreak of a calamity.
- ✓ It reduces strain on the available resources when industries are spread throughout the country.

The reasons against delocalization include:-

- It does not necessarily end the social costs but merely spreads them to various parts of the country.
- Economies of scale may not be enjoyed by the firms as they lack contact in order to share facilities.
- It may be difficult to attract professional staff in some areas especially if such areas are not attractive.
- Lack of competition among firms may cause production of poor quality goods and firms may develop monopoly power.
- Some areas may not attract commercial services like Banking, Insurance and other infrastructures.
- It becomes too costly for the government to develop infrastructures throughout the country.

14(a) what is retail trade?

(b)Explain the factors that are considered before setting a retail outlet.

(c)What are the qualities of a good retailer?

Solutions

(a) **Retail trade** refers to the selling of goods to the final consumers in affordable quantities.

(b) **The factors that are considered before setting a retail outlet include:-**

- **Cost of rent;** the cost of rent should be relatively low not to consume the profits of the firm.
- **Type of goods sold;** the goods to be sold should be those ones that are needed by the customers.
- **Political stability;** the area should be free from wars and theft.
- **Mode of advertising;** should consider whether to use sales men, posters e.t.c. to publish the products.
- **Language;** should consider the local language used in the area.
- **Market;** should consider the number of existing customers in the area to consume the business products.
- **Capital required;** the initial capital to procure stock and other equipments should be considered but this depends on the size of business to be started.
- **Government policy;** should not conduct a business which is unlawful.
- **Room for expansion;** it should be set in an area which is spacious enough to provide room for expansion when need arises.
- **Terms of sale;** should consider whether to offer credit facilities or to sale on cash basis.
- **Source of supply;** should be set near the suppliers of goods to reduce on the transport costs.
- **Transport network;** should be set in an area which is accessible to good transport and communication system for easy movement of goods and exchange of messages.
- **Level of competition;** should consider the existence of other shops dealing in similar products and the strategies to be adopted to out compete them.
- **Experience/skill;** should have enough experience in the business to be started.

(c) The qualities of a good retailer includes among others:-

- ❖ **Good buyer;** should buy goods which are demanded by the consumers.
- ❖ **Pleasantness;** should love his work and deal with his customers kindly.
- ❖ **Predict demand;** should forecast consumers demand and stock goods accordingly considering their tastes and preferences.
- ❖ **Good administrator;** should be able to monitor the movement of his stock and also supervise his staff to avoid theft and cases of misappropriation.
- ❖ **Relationship with suppliers;** should maintain a good relationship with the suppliers by paying them promptly hence enabling him get discounts from them.
- ❖ **Honesty;** should always tell his customers true information concerning the price, quality of the products e.t.c and should not un necessarily over charge the buyers to make abnormal profits.
- ❖ **Flexibility;** should always adjust his business in line with the consumers tastes and preferences.
- ❖ **Availability;** should always be available whenever customers need him/her and should be able to extend his/her working hours to attend to the customers at any time they want to buy.
- ❖ **Proper records;** should have knowledge of book-keeping to enable him know whether the business is operating at a profit or at a loss.
- ❖ **Offering credit;** should be in position to offer credit facilities to the trustworthy customers without any fear of bad debts.
- ❖ **Variety stocking;** should be able to stock a wide range of products to meet the tastes of different customers.
- ❖ **Proximity with the buyers;** should locate his/her business near the customers to enable him/her sell goods quickly to them and also save customers from incurring high transport costs.
- ❖ **Hygienic;** should maintain a high degree of cleanliness to enable customers develop interest in his/her products.

15(a) who are itinerant traders?

(b) Give reasons why the number of small scale retail firms have increased in Uganda.

(c) Outline the circumstances under which large scale firms can outcompete small scale firms.

Solution;

- **Itinerant traders** refer to a category of small scale retailers who carry their goods on motor vehicles, bicycles, wheelbarrows, on their heads and move from place to place selling their products. These are common in towns and villages. They some times sell defective goods since they don't aim at creating permanent clientele. They always exploit customer's ignorance by over charging them. However, they help in bringing the goods to the door steps of the customers. These may include:- market vendors, mobile shops,hawkers,street vendors, roadside traders,peddlars,barrow-boys e.t.c
- **Market vendors;** these have permanent stalls in market places where they sell their products e.g. traders Nakasero market.
- **Peddlers;** these use bicycles to move long distances selling their goods.
- **Roadside traders;** they sell their goods along side roads e.g. at bus stops.
- **Street vendors;** these normally operate from pavements and verandas of big shops on main streets and are very common in big towns.
- **Hawkers;** these moves with their goods on foot from one place to another. They carry goods on their shoulders and some times on their heads.
- **Mobile shops;** these carry their goods from one place to another using mobile vans or Lorries.
- **Barrow-boys;** these use wheelbarrows to sell their goods from place to place.

(a) The reasons why the number of small scale retail firms have increased in Uganda include:-

- ✓ They require little initial capital to operate.

- ✓ They do not require payment of high taxes as compared to large scale firms.
- ✓ They are flexible in terms of changing from one line of business to another.
- ✓ They promote personal initiative which encourages hard work to earn more profit.
- ✓ They are usually singly owned hence the owners enjoy all the profits alone.
- ✓ They are easy to control and supervise because of their small size.
- ✓ They favor the owners to establish close contact with the owners.
- ✓ They do not require highly skilled man power to operate.
- ✓ They do not require too much space unlike the large scale firms.
- ✓ They do not incur much expenses in terms of rent, electricity e.g. pedlars, hawkers e.t.c
- ✓ They do not require a lot of legal formalities like obtaining trading licenses.
- ✓ They are convenient to the customers in terms of selling goods to them in affordable quantities.
- ✓ The profits earned by taking advantage of ignorant customers have promoted an increase in the number of these retailers.
- ✓ They can operate in any given location where large scale firms may not function well.
- ✓ They are convenient in as far as confidentiality and secrecy concerning business dealings are concerned.

(b) Large scale firms can out compete small scale firms under the following circumstances:-

- When they can afford to buy in bulky and get discounts.
- When they can afford enough capital base to carry out research regarding consumers tastes and preferences.
- When they can afford an efficient and effective transport system for proper marketing and delivery of the products to the consumers.
- When they can manage to insure their products against various risks to ensure compensation in case of any loss.
- In case they can offer a variety of goods to the consumers which can increase their range of choice.
- If they can afford to rise up enough collateral securities which can enable them access financial assistance from banks.
- If they can operate numerous departments where by losses made in one department can be covered by profits from the other departments or branches.
- When they can afford to employ highly skilled man power which is efficient and effective in the production of quality output.
- When they can afford to advertise their products hence creating a wider market for their products.
- When they can provide better welfare facilities to their employees.
- When they can afford better after sales services to their customers.

16(a) Distinguish between natural growth and amalgamation.

(b) Describe the ways in which companies merge.

(c) Mention at least five advantages of amalgamation.

Solution;

(a) Natural growth refers to a situation when a firm expands on its own especially by the owner's policy of ploughing back profits while amalgamation is a situation when two or more firms with separate entities combine to enjoy economies of scale.

(b) The various ways in which companies amalgamate include;

- ✓ ***Complete amalgamation;*** is where all firms intending to merge dissolve and form a new firm which takes over the business.
- ✓ ***Absorption;*** is where one firm takes control over other firms and others are submerged in it or one company takes over the business of other companies completely but retains its entity.
- ✓ ***Holding company;*** is one where a number of firms entering into a combination retain their entities while one of them (holding company) acquires controlling shares in others (subsidiary companies). A holding company is one that has at least 51% of the share capital of the companies that have merged.

- ✓ **Cartel;** it is an association of firms producing similar goods established with a purpose of controlling prices of their products.

N.B; Mergers take the following directions or lines;

- **Horizontal mergers;** is where two or more firms in the same industry and at the same stage of production process combine.
- **Vertical mergers;** is one where two or more firms at different stages of production process combine
- **Lateral mergers;** is one where two or more firms producing related products that do not compete with each other join together.
- **Conglomerate/diversifying mergers;** is a merger of two or more firms which produce products that are totally unrelated.

(c)The advantages of amalgamation of firms includes among others;

- ✓ It enables acquisition of better management skills which promotes efficiency.
- ✓ It leads to the harmonization of marketing policies which is advantageous to the business.
- ✓ Specialization is made possible which leads to the production of quality output.
- ✓ It reduces wasteful competition due to duplication of resources.
- ✓ It increases the firm's capital resources hence increasing its productivity level.
- ✓ It increases the firm's ability to acquire loans due to the existence of enough collateral securities.
- ✓ It reduces the cost of production for the firm which enables it to enjoy economies of scale.

17. What services do retailers rendered to the;

- Retailers**
- Producers**

Solution:

a) The services rendered by the retailers to the final consumers include among others;-

- **Bulky breaking;** they sell goods to the consumers in quantities they can afford.
- **Advertising;** they publish new products to the consumers using window display, news papers e.t.c
- **Variety stocking;** they offer a wide range of products for the consumers to choose from hence improving on their standard of living.
- **Transport;** some of them offer free transportation of goods for those consumers who buys in large quantities.
- **Storage;** they provide storage facilities for the goods bought from producers and whole sellers hence consumers can get these goods at any time when need arises.
- **Advisory services;** they provide advice to the consumers regarding the right choice of products and how these products can be used.
- **Cash discounts;** they give cash discounts to those consumers who settle their debts promptly.
- **Credit facilities;** they offer credit facilities to those consumers who are creditworthy without any fear of bad debts.
- **Conveying information;** they transfer information got from the consumers to the producers or wholesalers as regards their tastes and preferences which enables the producers or wholesalers to make product adjustments.
- **Bringing goods closer;** they bring goods near the consumers which save the consumers from the transportation costs.

(c) The services that a retailer offers to the final producers include:-

- He helps to inform the producers about the consumer's complaints regarding their products.

- He looks for market on behalf of the producers hence saving them from the burden of carrying out market research.
- He advertises the goods of the producers through window display and other means which saves the producers from incurring such costs.
- Some large scale retailers e.g. super markets can afford to transport goods bought from producers by them selves. This relieves the producers from covering such costs.
- Large scale retailers buy goods in bulky from the producers. This relieves them from the burden of ware housing.
- They buy goods from them in relatively large quantities and pay them promptly hence enabling them to have enough working capital to finance the production process.

18(a) Mention any five types of large scale retailers.

(b)What are the features of large scale retailers?

(c)What are the advantages and disadvantages of super markets?

Solution;

(a) The types of large scale retailers include;-

- ✓ Supermarkets.
- ✓ Multiple shops
- ✓ Departmental stores.
- ✓ Mail order shops.
- ✓ Consumer co-operatives e.t.c

- **Supermarkets;** these usually deal in house hold items which a house wife is most likely to buy. They are characterized by self service, commodities carrying price tags, commodities spread in shelves, no room for bargaining, and no credit facilities e.t.c
- **Multiple shops;** this involves a combination of similar shops controlled and owned by a single firm. These shops have got various branches scattered in many parts of the country and deal in similar products.
- **Departmental stores;** It is a combination of shops under one roof, ownership and management. The store is sub divided into various independent departments and each deals in a different class of goods.
- **Mail order shops;** these are retail businesses which deal in selling and receiving goods through the post office. The business depends heavily on intensive advertising by giving colorful catalogues and afterwards getting orders from the prospective customers. The traders do not have a shop but have a ware house and an office.
- **Consumer co-operatives;** these are retail businesses formed by a number of consumers to safe guard themselves from being exploited by the middlemen like wholesalers inform of high prices. Their major aim is not to make profits but to ensure that the members welfare is improved.

(b) The features of large scale retailers include:-

- ✚ They invest large capital in the business.
- ✚ They serve a wide market.
- ✚ The floor area covered by the business is relatively large.

- ✚ They practice some specialization.
- ✚ They employ many people compared to small scale firms.
- ✚ They hold large stock of goods.

(c) The advantages of super markets include:-

- ✓ They deal in a variety of goods hence offering a wide range of choice to the consumer.
- ✓ It operates on a self service system which is time saving and convenient to the customers.
- ✓ Some goods are sold to the customers at low prices which encourage them to buy more goods.
- ✓ Credit facilities are not offered hence safe guarding the firm from bad debts.
- ✓ Large volumes of goods are sold hence enabling the firm to make more profits.
- ✓ Few workers are employed hence reducing on the operational expenses of the firm.
- ✓ They usually purchase their goods in bulky hence buying cheaply because of the discounts extended to them.
- ✓ The attractive display of the products in the shelves promotes self advertisement hence increasing sales.
- ✓ The commodities carry price tags hence saving the time which would be wasted in bargaining.
- ✓ The presence of deep freezers facilitates the storing of perishable goods for a long duration.
- ✓ The extra services rendered e.g. wrapping of goods appropriately encourages customers to buy from them.
- ✓ The consumers are free to make their own choices because they are not persuaded by any one to buy.
- ✓ The provisions of shopping baskets and trolleys for carrying the goods tend to make the shopping task easy.

The disadvantages associated with super markets include;-

- The customers without ready cash cannot get the goods since no credit facilities are offered.
- The rural areas are ignored since most super markets are located in urban centers.
- The customers end up being over charged due to the absence of haggling opportunities.
- The check points tend to be over congested hence wasting the consumers time on the line.
- Shop lifting is very common especially with unfaithful customers.
- Lack of personal attention tends to discourage customers who may be ignorant concerning the products.
- Time is wasted by the customers in the shop when comparing the various brands.
- The absence of credit facilities tends to limit the number of customers.

19(a) what is the difference between branding and packaging?

(b)What are the features of branded goods?

(c)What are the advantages and disadvantages of branding?

(d)What are the advantages and disadvantages of packaging?

Solution;

(a) Branding refers to the process of giving a particular name; design or label to a product to distinguish it from products of other producers in the same market where as **packaging** refers to the process of wrapping goods in special containers to safe guard them from atmospheric conditions especially pouring and contamination.

(b) The features of branded goods include:-

- ❖ They are uniformly priced.
- ❖ They facilitate persuasive advertising.
- ❖ They are usually packed properly.
- ❖ They are usually weighed.
- ❖ They carry some important information e.g. usage details and expiry dates.

- ❖ They contain specific symbols, designs e.t.c.
- ❖ They are easily distinguished from other similar products by colour, size, and package e.t.c.

(c) The advantages of branding include:-

- It enables consumers to identify quickly what they want since branded goods have specific names.
- It helps to increase sales especially when the customers become accustomed to a specific brand.
- Branding makes it easy to advertise the products since the products bear trade names.
- Branding guards customers against exploitation since their prices are fixed.
- Branding facilitates self service since the goods bear trade marks hence saving consumers time.
- Branded goods are easy to handle because they are uniformly packed.
- Branded goods are usually weighed. This saves the retailers from the burden of weighing.
- The trade mark label help to protect the producers from dubious dealers who may violate trade mark rights.
- Branded goods tend to attract consumers attention since they look attractive when displayed.
- The branded goods bear useful information describing how the commodity can be used and other salient features of the product.
- Branding safe guards consumers from being cheated in terms of measurements and weight since these products are uniformly weighed and measured.
- Branding enables consumers to enjoy goods which are not contaminated since branded goods are usually packed.
- Branding facilitates production of better quality production due to the competition amongst various producers to establish brand loyalty.

The disadvantages of branding include:-

- Branding tends to be expensive since the retailer has to stock a variety of goods to cater for the needs of different customers.
- The cost of branding can be shifted to the final consumer in form of high prices for the final products.
- It gives no room for bargaining since the prices of branded goods are usually fixed.
- The customers cannot practice their bargaining skills since the prices of these goods are fixed.
- The consumers may some times become addicted to a particular brand hence ignoring others.
- Branding encourages duplication of the fast selling brand of a product hence leading to poor quality goods being purchased.
- It is difficult to offer discounts on branded goods since these products are uniformly priced.

(d) The following are the advantages of packaging:-

- Goods which are well packed are easy to handle especially the liquids.
- Well packed goods can easily be sold through automatic vending.
- Some packaging materials can be put to other uses after removing the contents e.g. jerry cans, boxes e.t.c.
- Packed goods are always kept clean hence free from contamination and damage.
- Packed goods can easily be sent by mail order services hence reducing travel expenses.
- The illustrations indicated on the packaging material helps the customers to be informed on how to use and handle a product.
- Self service is made easy when goods are packed.
- Well packed goods offer convenience in storage hence less space is used.
- It saves time since the customers need not to weigh the containers as the quantity is always shown on the package.
- Well packed goods create a better product image hence attracting the customers to buy the goods.

The disadvantages of packaging include:-

- ✓ The packed goods appear bigger than the actual size of the product hence wasting space in the warehouse.
- ✓ The cost of packaging may be transferred on the final product hence making it expensive.
- ✓ Some packaging materials are harmful to the environment e.g. polythene bags.
- ✓ Attractive packaging materials may encourage the customers to buy a product which is not of good quality due to the colorful design.
- ✓ It may not be possible for a consumer to critically examine the product he intends to buy.

20(a) what is self service?

(b)What are the advantages and disadvantages of self service?

Solution;

- **Self service** is a retailing system where goods are spread in shelves carrying price tags such that a customer enters the shop, picks a commodity of his choice and goes to the counter for payment. This system of self service is commonly practiced in super markets.

(b)The advantages of Self service include:-

- ✓ It is a time saving system since the prices are indicated on the commodities hence no time is wasted on bargaining.
- ✓ It reduces the expenses on wages and salaries since it requires few workers.
- ✓ It involves attractive display of the products in shelves which attracts the customers hence increasing sales.
- ✓ It eliminates the problem of bad debts since credit facilities are not offered.
- ✓ It enables the customers to procure their goods from one shopping center since the operation of this system involves stocking a variety of products.
- ✓ It reduces consumer exploitation since the commodities bear price tags.
- ✓ It increases the profit margin of the trader since the prices are indicated on the commodities and no bargaining is accommodated.
- ✓ It enables the customers to practice their freedom of choice due to the absence of persuasions.
- ✓ It facilitates provision of services like trolleys and shopping baskets which makes shopping easy.
- ✓ It enables the customers to enter the shop and compare different brands which can make them make an informed decision.

The disadvantages of Self service include:-

- It denies the customers the freedom to practice their bargaining skills.
- It does not allow physical contact between the sellers and buyers hence the sellers can't know the consumers opinions.
- It may force the customers to buy what they might have not budgeted for due to the attractive display of the products.
- It may attract unfaithful customers who end up pick-pocketing some small items.
- It reduces the number of customers due to the absence of credit facilities.
- It is a costly system as it requires much capital to install shelves and stocking a variety of goods.
- It involves too much time wasted in queues especially at the checking points and at the cashier's desk.
- It may encourage the customers to spend too much time in the shop while comparing the various brands.

21(a) what is installment selling?

(b) What is the difference between Hire purchase and deferred payments?

(c) What are the advantages and disadvantages of installment selling to;

i) Sellers

ii) Consumers

Solution:

- (a) **Installment selling** refers to a system where a customer is allowed to take a good by paying small amounts until when the whole amounts are cleared. This system is very common to items which are durable and expensive that consumers may not be able to pay cash at once e.g. Television sets cars e.t.c.
- (b) **Hire purchase** is a system of installment selling where by after a down payment made by the customer, he processes the item but is not the legal owner until he pays the last installment. In case of failure to clear up to the last installment, the commodity can be reprocessed by the seller. Where as **Deferred payment** is a system of installment selling where by after a down payment from the customer, he acquires possession and ownership of the item and failure to pay the remaining installments will call for a notary action by suing the buyer to court in order to recover the out standing balance.

(c) The advantages of installment selling to the sellers include:-

- ✓ It increases the sales made since the small installments will motivate and tempt customers to buy more goods.
- ✓ If further increases the profit margin of the seller since goods sold under this system carry high prices.
- ✓ The seller can reposes the article under hire purchase in case of failure to clear the last installment.
- ✓ The frequent visits of the customers to clear the remaining installments attract them to buy more goods hence increasing sales.
- ✓ It strengthens the relationship between the sellers and buyers after a successful completion of all the installments.
- ✓ It reduces the problem of bad debts since the customers will try hard to clear due to the fear of losing the commodity and the earlier paid up deposits.
- ✓ It relieves the sellers from the burden of maintaining very large ware housing facilities since the customers can take the goods under deferred payments and keep them in their own premises.

i) The disadvantages of installment selling to the sellers include:-

- ❖ There is a high risk of bad debts especially under deferred payment system.
- ❖ In case the seller decides to reposes the item under deferred payment, the property may be in a bad shape hence making it hard to recover the remaining balance even if it is resold.
- ❖ The system is costly on part of the seller since it involves maintaining a record of the customer's accounts and the costs of recovering the debt.
- ❖ It is likely to worsen the relationship between the seller and the buyer in case the buyer is sued to court of failing to pay all the remaining installments.
- ❖ The seller may suffer a total loss in case of a serious accident which may involve a complete destruction of the property and death of the debtor.
- ❖ The system requires the seller to have a large capital out lay since most of his capital is always tie up in debts.
- ❖ The legal right to reposes the item by the seller in case of failure to pay the last installment tends to discourage the prospective customers from this system.

ii) The advantages of installment selling to the customers include:-

- It enables customers to acquire expensive items since the payments tend to be spread over a long period of time.
- The commodity acquired may act as a collateral security in case the customer is in need of any financial assistance from the money lenders.
- It enables the customers to save in form of accumulating durable assets.
- It enables the buyer to use the item before all the installments are cleared. This is more so with deferred payment system.
- It enables the buyer to budget for his income and expenditures since the payments in installments are predetermined.

- It is a more convenient system of purchase to the low income earners compared to a cash payment system.
- The article acquired under deferred payment can be used to generate more income that can be used to pay the remaining installments.

The disadvantages of installment credit to the consumers include:-

- ❖ The customer ends up paying a high price than he would have paid if he was to pay in cash.
- ❖ It may tempt buyers to purchase more goods on credit than they could actually pay for. This may result into losses if they fail to complete all the installments.
- ❖ It may worsen the relationship between the customer and the seller in case the customer is taken to court for failing to complete all the installments.
- ❖ It is costly to the customer since he has to visit the seller many times until the final installment is paid.
- ❖ The payment of regular payments over burdens the customers.
- ❖ The buyer under this system may not be in good position to bargain hence ends up being over charged.

22. What are the advantages and disadvantages of credit sales:-

The advantages of credit sales include:

- ✓ Customers buy more goods in case the payments are postponed hence resulting into increased sales.
- ✓ It is a promotional tool to increase sales of the firm.
- ✓ It enables the buyer to acquire the goods without actually paying for them.
- ✓ It improves on the standard of living between the seller and the customer due to the credit facility extended.
- ✓ It helps in ensuring that the goods about to expire are actually sold off hence minimizing losses in the business.
- ✓ It enables the trader to earn more profits since he charges a high price.
- ✓ It provides goodwill to the business since it is a financial assistance to the customer.

The disadvantages of credit sales include:-

- It ties up the working capital of the business in debts.
- It increases the operational costs of the business for instance one has to keep a record of the customers.
- The credit customers have a tendency of returning the goods more often compared to the cash customers.
- Some times the debtors may end up buying more goods than they can actually pay for.
- The customers end up paying for the goods expensively than they would have paid if the transaction was on a cash basis.
- Selling on credit may come along with some strings attached.

23(a) What is automatic vending?

(b) What are the advantages and disadvantages of automatic vending?

Solution:

(a) Automatic vending is as a system that involves the selling of goods to the consumers through coin operated machines. This system favors mainly the sale of small items like soft drinks, sweets, books, stamps, tinned foods e.t.c. It is also known for selling pre-packed goods to the customers.

(b) The advantages of automatic vending include:-

- ✓ It is a fast system hence convenient to the customers.
- ✓ It is an economic system since it does not require use of cashiers and shop attendants.
- ✓ It is operational all the day round hence enabling customers to get whatever they want at any time of their convenience.
- ✓ It tends to be accurate and perfect since fewer errors are made.
- ✓ It avoids bad debts since credit facilities are not offered to the customers.

The disadvantages of automatic vending include:-

- The machines are costly to buy and install.
- Few products may be sold using this system.
- The system is mainly urban based.
- The disruptions in the power supply may affect the operation of this system.
- Some times the customers may cheat using fake coins.
- It undermines the significance of customer care service.

24(a) what is wholesale trade?

(b)What are the features of whole sale trade?

(c)What are the different types of wholesalers?

Solution:-

(a) Wholesale trade refers to activity that involves buying of goods from producers in bulky and selling them to other traders e.g. retailers, industrial users e.t.c.in quantities they can afford.

(b) The features of wholesale trade include:-

- It involves linking producers to retailers in home trade.
- It involves buying goods from a producer in bulky.
- It involves breaking the bulky.
- It involves use of large capital to stock a variety of goods.
- It involves warehousing since large quantities of goods are bought and stored.
- It involves sale of products to other traders especially retailers.
- It is mainly carried out in urban centers due to the big size of market.
- It is usually carried out by a trader called a wholesaler.

(c) The different types of wholesalers include:-

- **Nation wide wholesalers**, these carry out their activities in the whole nation.They have various branches established in different parts of the country. They offer a wide range of products to retailers throughout the country.
- **Regional wholesalers**, these operate in a particular area and also set up branches in that particular region. They deal in a variety or a selected range of products.
- **Specialized wholesalers**, these concentrate on a particular field and a great deal of products in this field are offered.
- **Cash and Carry wholesalers**, these offer their products on a cash basis but at relatively low prices than other wholesalers. They don't offer delivery services.
- **General wholesalers**, these deals in unrelated products from different fields depending on the needs of the various retailers.
- **Truck wholesalers**, these move from place to place selling goods to retailers from their vans and Lorries.

25. Mention the services that a wholesaler renders to each of the following:-

(a) Producers.

(b) Retailers.

(c) Consumers

Solution;

(a)The services that wholesalers render to the producers include;

- He transports goods bought from the producer to his premises hence saving the producer from these transportation costs.
- He finances the producer by buying from him in bulky and paying him promptly hence equipping him with enough working capital to fund the production process.
- He relieves the producers from the storage expenses and other losses since he provides a warehouse for him self.
- He normally advertises products on behalf of the producer.

- He provides a link between the producer and the retailer hence he is in position to convey information to the producers especially on people's opinions regarding their products.
- He buys from the producer in large quantities hence enabling him produce massively.
- He saves the manufacturers from the task of dealing with very many small orders from retailers.
- He relieves the producer from a number of risks like theft, damage e.t.c. through buying from him in large quantities.

(b) The services that a wholesaler renders to the retailers include:-

- ✓ He breaks the bulky by selling goods to them in affordable quantities.
- ✓ He finances the retailers by offering credit facilities to them.
- ✓ He holds enough stock which enables the retailers to make orders at any time they feel like.
- ✓ He sometimes offer transport to those retailers who buys from him in bulky hence saving them from such costs.
- ✓ He sometimes advertises goods on behalf of retailers hence increasing the retailer's turn over.
- ✓ He offers advice to the retailers concerning the right choice of goods and on how to handle certain products.
- ✓ He offers trade discounts to retailers who buy from him in bulky and cash discounts to those who settle their debts promptly.
- ✓ He offers a variety of goods to the retailers which he buys from different producers.
- ✓ He keeps retailers updated with information for instance information on latest fashions, price changes e.t.c.
- ✓ He carries out packaging and branding of goods hence saving the retailers from such costs.

(c) The services that a wholesaler renders to the consumers include:-

- ❖ He keeps the prices stable by allowing a steady supply of goods in the market.
- ❖ He holds large stocks and releases it regularly which helps the consumer to get the goods throughout the year.
- ❖ He stocks a variety of goods which enables the consumers to have a wide range of choice.
- ❖ He undertakes the distribution function by bringing the products with in the reach of the public. This saves the consumers from the transport costs.
- ❖ He sometimes advertises products to the consumers which helps consumers to quickly buy what they want.
- ❖ He acts as a middleman through which the goods from the manufacturers reach the consumers.

26(a) why should a wholesaler not be eliminated in home trade?

(b) Under what circumstances a wholesaler may be eliminated from the chain of distribution?

Solution:-

Part (a) requires the functions of a wholesaler. A wholesaler should not be eliminated from home trade because:-

- He bridges the gap between the producers and retailers.
- He buys from producers in bulky hence relieving them from the storage costs.
- He finances the retailers by allowing them credit facilities.
- He carries out packaging, grading and pricing of the products hence saving the retailer from such a task.
- He ensures a continuous supply of goods throughout the year by regulating the quantities released in the market.
- He transports goods bought from the producer to his premises hence saving the producer from incurring transport costs.
- He advises the producer on a wide range of goods that are needed by the customers.
- He advertises goods on behalf of producers and retailers.
- He offers discounts to retailers who buy from him in bulky and pays him promptly.

- He provides for himself warehousing facilities hence saving the producers and retailers from storage costs.
- He carries out market research on behalf of the producer hence saving him from such costs.
- He breaks the bulky by selling goods to the retailers in affordable quantities.
- He finances the producers by buying from him and paying him cash promptly. This enables him to have enough working capital.

(b)The wholesaler may be eliminated from the chain of distribution/the services of a wholesaler may not be required under the following circumstances.

- ❖ When manufacturers are financially strong to open up their own retail outlets through which they can serve their customers.
- ❖ When large scale retailers which buys in bulky from the producer exist like supermarkets, institutions among others.
- ❖ When the consumers require direct services of the producer e.g. a patient requires direct services of the doctor.
- ❖ When the producer has his appointed agents in all parts of the country where goods are sold directly to the consumers.
- ❖ When the sale of goods is by contract, the producer will deal directly with the consumer hence no need for a wholesaler.
- ❖ When the goods involved are bulky, delicate, technical and expensive, the producers find it convenient to deal with the consumers.
- ❖ When mail order services exist or if the producer's business is operated through the post office.
- ❖ When a producer deals in perishable products which requires minimum level of handling. e.g. fish, tomatoes e.t.c.
- ❖ When the distance between the producer and the consumers is very short, the consumers can buy directly from the producer.
- ❖ When consumer's co-operatives exist, they can pool enough capital to enable them buy in bulky from producers hence eliminating a wholesaler.
- ❖ When the producer can afford to break the bulky by selling in small quantities to the consumers.
- ❖ When the producer owns mobile vans which can enable him distribute his products efficiently to the consumers.
- ❖ When the producer can afford warehousing facilities for the goods which he produces in bulky.
- ❖ When the demand for the goods is seasonal, the wholesalers may not be desired.

27(a) what is the meaning of the following terms as used in home trade;

- i. Letter of inquiry*
- ii. Quotation*
- iii. Order*
- iv. Credit status inquiry*
- v. Proforma invoice*
- vi. Package sheet*
- vii. Dispatch/advice note*
- viii. Delivery note*
- ix. Goods received note*
- x. Invoice*
- xi. Credit note*
- xii. Debit note*
- xiii. Goods returned note*

xiv. *Statement of account*

xv. *A receipt*

(b) *What problems do traders in your country experience?*

Solution:

- **Letter of inquiry**, is a document prepared by the buyer and sent to the seller seeking for information about the goods available for sale. Several inquiries may be sent to various sellers to enable the buyer select the best alternative.
- **Quotation** is a reply to a letter of inquiry. It is sent by the seller to the buyer stating the terms and conditions under which goods can be sold. This reply of inquiry may be in different forms which include:-
 - **Catalogue**, It is a booklet that gives details and illustrations of the supplier's goods plus other services performed by the seller. This booklet is designed in an attractive manner to attract the customers.
 - **Price list**, It is a list of products available at the seller's premises and their respective prices.
 - **Price current**, It is sent when there has been a change in the original price of the items hence it shows the current price of the commodities prevailing in the market.
- **Order**, is a document prepared by the buyer and sent to the seller requesting him to send the goods named in it. The buyer usually places an order with a supplier who offers him with the best terms of sale. An order can be sent verbally, through writing or by filling an order form prepared by the supplier.
- **Credit status inquiry**, This document is prepared by the seller who wishes to extend credit facilities to the customer and would like to have confidential information regarding the customer's financial status. This confidential information can be obtained from sources like; Bankers to the buyer, other suppliers, friends to the buyer trade association s e.t.c.
- **Proforma invoice** Is a document prepared by the seller and sent to the buyer when payment is expected before the goods are delivered to the buyer. It enables the buyer to prepare cash for the goods in time.
- **Package sheet**, It is a document that shows the number of items in each container or box. It is inserted each container during the wrapping stage.
- **Dispatch/advice note**, It is sent by the seller to the buyer to inform him that he goods ordered for are in transit. It specifies the time when the goods are expected to arrive. This gives the buyer enough time to organize the warehousing facilities and transport to pick the goods from the terminals.
- **Delivery note**, it is drawn by the seller and sent to the buyer through the transporter along with the goods. It indicates the number of packets delivered and is accompanied by a package sheet. It is handed over to the buyer who signs it after cross checking that the goods match with the delivery note and order form.
- **Goods received note**, This is drawn by the buyer in case he does not receive a delivery note from the seller. This document shows the details of goods that had been received by him.
- **Invoice**, It is a document prepared by the seller and sent to the buyer informing him of the amount due. It is sent only when goods were issued to the buyer on credit. It notifies the buyer of the amount that he owes to the supplier. It contains; Description of goods, Name and address of the seller/buyer, Prices and quantity of goods, Total cost of the goods, Terms of payment, Discounts allowed, Net amount paid, e.t.c. The abbreviation **E&O.E** indicated at the foot note of an invoice stands for; **Errors and Omissions Excepted**. The letters signify that the seller reserves the right to rectify any mistake if discovered at a later date.

- **Credit note**, It is a document prepared by the seller and sent to the buyer to rectify an over charge in the invoice. It is issued if part of the goods sent to the buyer is returned. It credits the account of the buyer hence reducing the amount of money on the invoice. It may be sent under circumstances when;
 - ✓ Wrong quantities of goods were sent.
 - ✓ Inferior goods were sent.
 - ✓ Part of the goods sent was damaged.
 - ✓ Wrong descriptions of goods were sent.
 - ✓ Errors in calculations were made e.t.c

- **Debit note**, It is sent by the seller to the buyer to correct an under charge in the invoice. It increases the buyer's liability to the seller. The seller may send a debit note if;
 - ✓ Superior goods were sent.
 - ✓ More goods were sent than what was ordered.
 - ✓ Less than the actual amount was indicated on the invoice.
 - ✓ The buyer is to pay for the packaging materials.
 - ✓ Wrong prices are quoted.
 - ✓ Omissions of some of the goods from the totals.

- **Goods returned note**, This is prepared by the buyer and sent to the seller after finding out that part or all the goods received are defective. These goods are returned to the supplier and the buyer makes a credit claim for their cost.
- **Statement of account**, It is a document issued by the seller to the customer showing a summary of transactions carried out between them for a particular period of time. It actually notifies the buyer what he owes the seller and demands for money that the buyer owes to the seller. It contains;-
 - ✓ Unpaid balances from the previous month.
 - ✓ Value of particular items issued on credit.
 - ✓ Payments made during the year.
 - ✓ Balance due at the end of the month.
 - ✓ Invoices issued during the month.
 - ✓ Name and address of the seller.
 - ✓ Name and address of the buyer.
 - ✓ Date/month/period of the statement.
 - ✓ Signature and official stamp e.t.c.

- **A receipt**, It is issued by the seller to the buyer to acknowledge that money has been received for the goods supplied. Issuing a receipt marks the end of a transaction.

b) The problems that traders in Uganda experience include among others;-

- They **lack adequate capital** to expand their businesses.
- They suffer from **limited market** for their products due to poverty amongst the population.
- **Lack of business management skills** amongst some traders affects their operations.
- **Poor transport network** especially in rural areas cause delays in the delivery of goods hence creating frequent shortages.
- **Political instabilities** in some parts of the country affect traders in such areas. This is because traders are attacked and robbed of their properties and money hence limiting business activities.
- **High interest rates** charged by the money lending institutions discourage traders from borrowing hence limiting their business activities.
- **Many legal formalities** involved before starting business activities for instance the need for a trading license scares away some traders hence limiting their activities.

- **High risks** involved in business activities for instance bad debts, thefts e.t.c. cause fear amongst some traders hence limiting their activities.
- **Limited room for expansion** especially in urban areas affect the activities of those traders who would have wished to expand their businesses.
- **High taxes** imposed on traders affect their profit margin hence scaring away traders.
- **High levels of competition** amongst traders who deal in similar commodities amidst few customers tend to affect traders.
- **High rate of price fluctuations** in the country may in one way or another affect the operations of traders.
- **High inflation rates** in the country increases the prices of goods and services which tend to discourage the customers.
- **High demonstration effect** among the citizens tends to limit market for the locally produced products.

28. Give the meaning of the following terms as applied in trade.

- a) Transaction
- b) Cash transaction
- c) Credit transaction
- d) Commercial transaction
- e) C.O.D(cash on delivery)
- f) C.W.O(cash with order)
- g) Spot cash
- h) Prompt cash
- i) Trade discount
- j) Cash discount

Solution;

- a) **Transaction** refers to any dealing between two parties involving transfer of goods and services from one party to another for a consideration which is usually money.
- b) **Cash transaction** refers to a transaction which involves cash payment for goods immediately they are handed over to the buyer.
- c) **Credit transaction**, Is a transaction that involves exchange of goods and services but payment is effected at a future date.
- d) **Commercial transaction**, It is a transaction which is carried out between traders more so between wholesalers and retailers.
- e) **Cash on delivery**, This involves the seller collecting the money when the goods have been delivered to the buyer.
- f) **Cash with order**, This involves placing an order accompanying it with full amount of money for the goods required.
- g) **Spot cash**, It is where the buyer pays for the goods as he collects them from the supplier's premises. The seller issues a cash sales slip to act as a proof that cash has been received from the buyer.
- h) **Prompt cash**, This is cash paid by the buyer within a given credit period specified by the supplier.
- i) **Trade discount** is an allowance or reduction in price given to customers who buy goods in bulky.
- j) **Cash discount** is an allowance which is given to buyers who settle their debts promptly or before the credit period given by the supplier is due.

29(a) what is international trade?

(b) What are the differences between International trade and Home trade?

(c) What are the factors that give rise to international trade?

Solution;

- (a) **International trade** refers to the exchange of goods and services between countries
- (b) **The differences between International trade and Home trade include;**

- International trade involves exchange of goods across the country's boundaries whereas home trade involves exchange of goods from within the boundaries of the countries.
- International trade involves importers and exporters whereas home trade involves wholesalers and retailers.
- International trade involves use of foreign currency whereas home trade involves use of local currency.
- The goods in international trade are subjected to customs duties whereas those in home trade are subjected to excise duty.
- Foreign languages are used in international trade while a local language is used in home trade.
- Foreign trade involves use of trade restrictions which limits a country's market share whereas home trade doesn't involve such restrictions.
- Goods in international trade take long to reach the buyers due to the long distance involved while goods in home trade take a short period of time to reach because the distance involved is a bit short.
- In foreign trade, it is not easy to carry out after sales services whereas in home trade, it is very easy since the sellers and the buyers are from the same country.
- Goods in international trade are stored in bonded warehouses whereas those in home trade are mainly stored in wholesalers' warehouses.
- Goods in international trade are exposed to a wider market whereas in home trade, the local market is small.
- International trade involves preparation of many documents whereas home trade involves preparation of few documents.
- The costs involved in international trade are high whereas those involved in home trade are slightly low due to the short distance involved.

c) The factors that give rise to international trade include;

- ✓ ***Difference in natural endowments***, countries may not have all the resources needed in the production process hence giving rise to international trade to get such resources.
- ✓ ***Differences in skills***, this results into production of different qualities of products hence giving rise to international trade to enable a country get better quality products.
- ✓ ***Production of surplus commodities***, some countries produce in excess of what they can consume hence requiring them to export these surplus products in other countries leading to a rise in international trade.
- ✓ ***Treaties between countries***, some countries enter into agreements with others to supply products to such countries. This gives rise to international trade amongst such countries.
- ✓ ***None use of a commodity***, some countries produce commodities which they don't actually consume hence requiring such countries to export these products to foreign countries.
- ✓ ***Differences in technological development***, this gives rise to international trade to enable a country acquire modern technology from other countries for development.
- ✓ ***Natural calamities***, this gives rise to international trade in form of relief extended to countries effected by wars, earthquakes, drought, etc.
- ✓ ***Enhancing political ties***, the need for a country to strengthen political relations with another may give rise to international trade between these countries.
- ✓ ***Comparative cost advantage***, some countries may find it cheaper to import a particular commodity than producing it locally hence giving rise to international trade.
- ✓ ***Demand for a particular commodity***, a country may not be in position to produce a product which is desired by its population hence giving rise to international trade to enable such a country get this product.
- ✓ ***Differences in tastes and preferences***, some countries prefer to use products which are produced by other countries hence giving rise to international trade in order to get these commodities.

30(a) what is the meaning of the following terms as used in international trade;

- i. **Bi-lateral trade**
- ii. **Multi-lateral trade**
- iii. **Visible trade**

- iv. **Invisible trade**
- v. **Balance of trade**
- vi. **Balance of payment**
- vii. **Devaluation**
- viii. **Dumping**
- ix. **Terms of trade**
- x. **Comparative cost advantage**
- xi. **Entrepot trade**
- xii. **Customs draw back**

b) What are the advantages and disadvantages of international trade?

c) What factors limit international trade?

Solution;

- i. **Bi-lateral trade** refers to the trading relationship that exists between two countries for instance Uganda and Rwanda.
- ii. **Multi-lateral trade** refers to trade that involves the exchange of goods and services among several nations of the world (more than two countries are involved).
- iii. **Visible trade** refers to the kind of trade that involves the importation and exportation of tangible items (goods) such as computers, cars e.t.c.
- iv. **Invisible trade** refers to the kind of trade that involves importation and exportation of services like Banking, Tourism e.t.c
- v. **Balance of trade** refers to the difference between the value of a country's visible imports and exports. If the value of visible exports is more than the value of visible imports, the country would be experiencing a Favorable Balance of Trade and the reverse is equally true.
- vi. **Balance of payment** refers to the difference between a country's receipts for both visible and invisible exports and expenditures for both visible and invisible imports. In case the total receipts from the exports are more than the total payments on the imports, a country would be experiencing a favorable balance of payment and the reverse is equally true.
- vii. **Devaluation** refers to the reduction in the value of a country's currency in relation to foreign currency. It is aimed at encouraging exports and discouraging imports hence rectifying the balance of payment position of a country.
- viii. **Dumping** refers to the selling of goods in the foreign markets at lower prices than those that are charged in the home markets.
- ix. **Terms of trade** refers to the relationship between the country's imports and exports in terms of their prices. In case the prices of a country's exports are higher than those of her imports, a country would be experiencing favorable terms of trade and the reverse is equally true.
- x. **Comparative cost advantage** refers to a situation where a country specializes in the production of a commodity where it incurs the lowest cost of production and it imports such commodities where its cost of production would be high.
- xi. **Entrepot trade** refers to a kind of trade where a country re-exports a commodity that it had previously imported from other countries.
- xii. **Customs draw back;** It is an arrangement where producers import raw-materials and pay customs duty for them, in case they process them and decide to re-export the finished products, the duty may be fully or partially refunded to them. This may encourage export trade as exporters are assured of the refund when they re-export.

b) The advantages of international trade include;

- ✓ It encourages countries to specialize which leads to massive production and lower prices for the goods.
- ✓ It enables a country to dispose off its surplus products to foreign countries which would otherwise be wasted.
- ✓ It widens market for the country's products hence increasing its turn over.

- ✓ It enables a country to get relief from other countries in case of natural calamities like floods, drought, earthquakes e.t.c
- ✓ It enables a country to get commodities which it cannot produce due to inadequate resources e.g. Uganda imports computers from outside countries.
- ✓ It promotes good trading relationship, cooperation and international understanding among countries since it allows easy movement of people from one country to another.
- ✓ It enhances competition between the local and foreign producers which promotes the production of quality output.
- ✓ It enables the citizens of a country to get a variety of goods from different countries which increase their freedom of choice.
- ✓ It enables a country to increase its revenue from the customs duties levied on goods exported and imported.
- ✓ It enables a country to get foreign exchange from the goods exported which is significant for the development of the country.
- ✓ It promotes massive production which increases employment opportunities to several people in different countries especially through export promotion industries, transportation e.t.c
- ✓ It enables easy transfer of technology from developed to developing countries which promotes efficient utilization of resources.

The disadvantages of international trade include;

- It leads to the collapse of local infant industries more so when citizens prefer imports to locally produced products.
- It may cause negative implications to a country like price fluctuations due to over production.
- It leads to unfavorable balance of payment when a country's expenditure on imports exceeds its receipts from exports.
- Some of the imported goods like drugs; alcohol e.t.c. may cause side effects to the citizens of the country.
- It encourages a country to over depend on other countries which may not be good in case of misunderstandings.
- It leads to imported inflation when a country gets its supplies from another country experiencing inflation.
- It encourages over exploitation of resources which would lead to their depletion due the increased desire to export and earn more foreign exchange.
- It encourages dumping which affects the growth of local industries and also causes unemployment in the domestic market.
- It leads to erosion of morals and cultural values of the citizens due to high demonstration effect among the local population.
- It widens the gap between the rich and poor countries since poor countries continue producing agricultural products which fetch lower prices and rich countries continue producing industrial products whose prices are high.

c) The following are some of the factors that limit international trade;

- ❖ Language barrier limits the level of interaction between sellers and buyers.
- ❖ Great need for modification and standardization of goods leads to an increase in their final prices hence affecting their demand in the market.
- ❖ High risks involved e.g. theft, bad debtors; bad weather e.t.c discourages many traders.
- ❖ High transport costs due to long distance involved discourage many traders hence limiting trade.
- ❖ Lack of knowledge concerning the different exchange currency rates tend to discourage many traders.
- ❖ Too much documentation involved discourages some traders from carrying out this trade.
- ❖ Trade protectionism tends to limit the volume of imports and exports hence limiting free trade.

- ❖ Cultural differences especially where some cultures discourage consumption of certain products tend to limit the size of market.
- ❖ High competition among traders from different countries further limits the size of market.
- ❖ Political instabilities in the country tend to discourage the local and foreign traders.
- ❖ Unfavorable climatic conditions tend to affect those traders who engage in agricultural products since it limits the quantities of goods supplied in the foreign market.

31(a) Explain the methods used to regulate international trade.

(b) Why do countries regulate international trade?

Solution;

(a) The methods used to regulate international trade include;

- **Imposing tariffs**, high taxes on imports raises their prices hence discouraging their consumption in the local market. High export taxes may also be imposed to discourage exportation of essential items.
- **Fixing quotas**, the government fixes a physical restriction in the amount of goods that should be imported. The maximum quantity set over a given period of time is not exceeded hence any excess is rejected.
- **Use of devaluation**, this involves a reduction in the value of local currency in relation to foreign currency. This policy makes imports expensive hence discouraging their importation.
- **Use of subsidization**, the government gives financial assistance to the local producers to keep their cost of production low hence having a price advantage over the imports. This will discourage imports.
- **Use of foreign exchange control**, the government may restrict the foreign exchange given to the importers or may fix it at a high rate to make importation expensive. This will at the end discourage imports.
- **Issuing import licenses**, the government charges high license fees from importers or issues few licenses to importers hence limiting imports.
- **Total ban**, the government completely prohibits importation of certain items by law. This is mainly done to commodities that are deemed dangerous to the citizens in the country.
- **Introduction of sanitary regulations**, the government introduces strict health standards that are supposed to be met by importers before allowing their goods into the local market. This discourages importers of products which do not meet the required standards.
- **Use of administrative controls**, the government put in place lengthy procedures to be complied with before one is allowed to import or it may put in place technical specifications that are to be complied with by the importers.
- **Use of import prepayments**, the government may require the importer to deposit import fees in advance before allowed to import. This may discourage some importers who could not meet this requirement.

b) The government regulates international trade because of the following reasons.

- ✓ **To protect home infant industries** against competition from foreign firms whose products are cheap and of better quality.
- ✓ **To improve on the balance of payment position** of a country as a result of a reduction in the expenditures made on the imports.
- ✓ **To fight imported inflation** as a result of restricting in flow of goods coming from a country experiencing inflation.
- ✓ **To discourage importation of harmful products** that may endanger the health of the citizens.
- ✓ **To maintain good security** in the country by ensuring that the government controls the inflow of fire arms.
- ✓ **To preserve the national cultural values** through discouraging infiltration of foreign cultures.

- ✓ *To increase government revenue* through imposing custom duties on the products.
- ✓ *To increase employment opportunities* in the country since local producers will be encouraged to invest their resources in many productive activities.
- ✓ *To prevent dumping* which may lead to the collapse of the domestic industries.
- ✓ *To promote industrialization* in the country since the local individuals will be encouraged to invest in import substitution industries to produce commodities initially imported.
- ✓ *To encourage exploitation of the available resources* as individuals will utilize the available resources to produce goods that are needed in the country.
- ✓ *To improve on domestic savings* as a result of a reduction of people's expenditure on imports.
- ✓ *To protect technology and craftsmanship*, this may be eroded due to international trade.

32. Give the functions of each of the following documents below;

- i. **Indent**
- ii. **Bill of exchange**
- iii. **Consular invoice**
- iv. **Charter party**
- v. **Letter of Hypothecation**
- vi. **Freight note**
- vii. **Bill of lading**
- viii. **Air way bill**
- ix. **Certificate of origin**
- x. **Certificate of inspection**

Solution;

- i. **Indent**, it is an order in international trade and its use when one is importing goods through an agent in the exporting country. Its function is to request the agent to place an order on behalf of the importer. It can be *an open indent* when the importer requests his agent to place an order without naming the specific supplier or a *closed indent* when the importer specifies the name of the supplier where the agent should place an order.
- ii. **Bill of Exchange**, it is an unconditional document drawn by the exporter to the importer requiring the latter to pay a specified sum of money to the former on demand or at a particular future date. Its function is to demand for payment. It can be a *sight bill* if it is payable on demand or a *usance (dated) bill* if it is payable at a stated future date.
- iii. **Consular invoice**, it is a document signed by the consulate or embassy of the country to which the goods are being exported. Its function is to ensure that the goods have been reasonably priced, not harmful e.t.c
- iv. **Charter party**, it is a contract between the shipping company and the hiring business when an entire ship is to carry cargo for a voyage. Its function is to enable the hiring company take an absolute control over the vessel for a given period of time specified in the contract.
- v. **Letter of Hypothecation**, it is a letter from the exporter of goods authorizing his bank to obtain and sell goods being exported to the importer at the best price it can get after failing to obtain payment on a bill of exchange drawn on the importer.
- vi. **Freight note**, it is a document given by the shipping company that shows the cost of transport for the goods from one terminal to another.
- vii. **Bill of lading**, it is a freight contract drawn by the shipping company that shows the details of goods loaded on the ship and the terms and conditions under which the goods have been accepted by the shipper. It acts as a document of title, a contract of carriage, acts as a receipt for the goods e.t.c.
- viii. **Air way bill**, it is a document drawn by the Airline Company that shows the details of goods loaded on the aircraft and the terms and conditions under which they were accepted by the airline company.
- ix. **Certificate of origin**, it is a document that shows the country where the imported goods were produced. This is to enable countries that have reached mutual agreements know the rate of duty levied from a given state.
- x. **Certificate of inspection**, it is a document which evidences that the goods imported are free from any contamination.

