COMMERCE
FOR
Senior Secondary School

1

AKADALEARN

S.S.S 1

COMMERCE

FIRST TERM

TABLE OF CONTENT

Week 1

Topic: Introduction to Commerce

CONTENT

- Meaning of commerce
- Scope of commerce
- Functions of commerce
- Characteristics of commerce

Meaning of Commerce

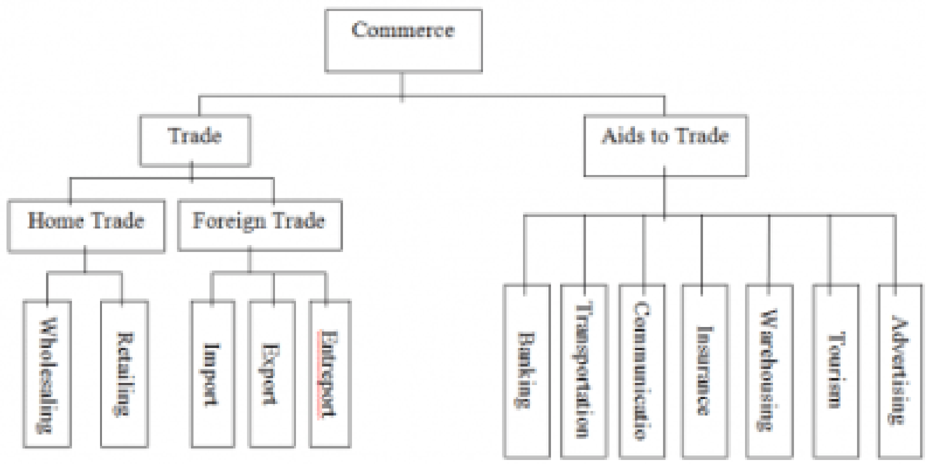
Commerce is a branch of production that deals with the distribution; exchange of goods and services and all activities that assist or facilitates trade. Commerce is defined as the study of all the activities concerned with buying and selling and distribution of goods and series.

The central focus of commerce is exchange in commercial activities since exchange would concentrate on the transfer of goods and services from producer to the final consumer. Commerce therefore consists of trade and other activities that facilitate trade.

Scope of Commerce

The scope of commerce may be seen as embracing the totality of all activities which ensures the distribution and exchange of goods and services for the satisfaction of the people. It should be note that commerce embrace trade and aids to trade.

The scope of commerce illustrated below:



Functions of Commerce

1. It offers employment opportunities to a large number or people
2. It links buyer and seller together to do business without physical contact.
3. It helps to create wealth for nations as duties are charge on either imported or exported goods
4. It facilities the exchange of goods and services through transportation
5. It leads to the improvement of standard of living and quality of life of the people.
6. It facilitates mass production of goods and thus, people all over the world can enjoy goods and services within and outside their countries.

Characteristics of Commerce

1. It is an economic activity because it is undertake to earn profit.
2. It involves the exchange of goods and services for profit.
3. The primary objective is to earn profit
4. It involves the creation of time and place utility for the products.
5. It consists of regular transaction.

Tests and Exercises

1. Commerce is the study of all activities concerned with buying, selling and of goods and services (a) promotion (b) distribution (c) purchasing (d) Advertising. ANSWER: Distribution
2. _______ of commerce is seen as embracing the totality of the distribution and exchange of goods and services (a) scope (b) function (c) characteristic (d) specialization. **ANSWER**: Scope
3. The central focus of commerce is ______ (a) exchange (b) distribution (c) buying and selling (d) its functions. **ANSWER**: Exchange
4. All are functions of commerce except (a) raising of capital (b) transport (c) creation of nation's wealth (d) regular transaction. **ANSWER**: raising of capital
5. Commerce is basically divided into trade and _____ (a) specialization (b) occupation (c) auxiliary trade (d) Auxiliary to distribution. **ANSWER**: Auxiliary trade

Week 2

TOPIC: Career Opportunities In Commerce

CONTENTS

There are various career opportunities for available for people in the job market. This topic will provide useful information for commercial school certificate holders, degree holders about the various opportunities in the public, private and teaching sector.

Career Opportunities In the Public Sector

There has been increase, in quest for job placement in Government establishments because of security and good fringe benefits. The salary has become more competitive with those paid by business organisations,

The Federal Government is the largest employer of labour in Nigeria. There are various categories of jobs available for graduates of polytechnics and universities. These include' Budget Analyst, Chief Executive Officer, Higher Executive Officer. Principal Executive Officer Personnel Officer, Administrative Assistant. Purchasing Officer, Secretary. Director of Finance, Director of Administration, Accountant etc. School certificate holders also may work as Clerical Officers, Secretary Grade IV. Office Assistants, Drivers, Cleaners, etc.

At the slate and local government levels, career opportunities arc abound for university graduates and diploma holders. They can serve as: health care workers, highway managers, safety control officers, clerks, administrative officers, hook keepers, accountants etc Employees in the civil or public service are referred to as civil servants.

Career Opportunities In The Private Sector

A lot of clerical and management occupations are available in the private sector. These are categorized below as:

Marketing and Sales

Many people who have pursued and completed a course of study in commercial studies can be employed in different fields of marketing and sales such as, retailing, wholesaling, transportation, warehousing, and communication and research industries. Some of the posts available include:

1. Research Assistants
2. Research Supervisors and Directors
3. Sales Analysis

4. Agents
5. Advertising Client Service executives
6. Managers
7. Artists in Advertising Agency
8. Salesmen
9. Sales Representatives

Production and Materials Management

Job positions available und production management are:

1. Traffic managers
2. Inventory Officers
3. Purchasing Agents
4. Purchasing Officers and Managers
5. Quality control analysis
6. Industrial designers

Financial Area

The environment and work in financial institutions in Nigeria have changed drastically in the last one and half decades. Many new jobs have been created in this area because of the tremendous increase in the number of financial institutions. The various job positions in the financial sector include:

1. Rank Officers
2. Loan officers
3. Accountants
4. Cashiers
5. Trust officers
6. Investment Banker
7. Financial Analysts
8. Treasury Officers

Management as a Profession

Management has become a profession and as a result, it has become obvious that good management is very important in all kinds of organisations.

There are many types of management positions. These are:

- Personnel Officers
- Management Trainees
- Middle Level Managers
- Top Level Managers
- Record and Statistics Officers
- Administration Officers

Insurance Industry

There are various clerical under positions in the insurance industry. For clerical jobs, the usual skills in typing and filling are essential. There are great opportunities for the following:

- Claim examiners
- Underwriters
- Claim adjusters
- Actuaries
- Agents
- Brokers

Accounting and Management Information System

The demand for accountants is on the increase for expansion of firms. A good accountant must be a logical thinker. Accounting is a rewarding and challenging profession which provides a great deal of job opportunities for accounting professionals as:

- Book Keepers
- Account Clerks
- Accountants
- Auditors
- Tax Consultant

- Financial Managers
- Credit Analysts
- Cost Accountants
- System Analysts
- Data Based Computer Operators.

A rigorous background in mathematics if required to undertake a course of study in accounting and management information system

Requirements For Various Careers

- **Basic requirements for unskilled jobs:** All unskilled jobs in the various categories listed above are reserved for holders of first school leaving certificates (primary 6). E.g. messengers. Office assistants, etc.
- **Basic requirements for semi-skilled jobs: S**emi-skilled jobs such as clerical jobs in account, administration, insurance, banking etc are reserved for holders of secondary school certificates and national diploma certificates, depending on grade level.
- **Basic requirements for management trainee, top management or executive level:** Holders of first degree or Higher National Diploma (HND) are offered appointment for middle level management and holders of second degree for top management level. In the public service, a graduate is employed as a grade level 08 officer.
- **Commercial courses:** Graduates of the following professions are offered employment in all the career opportunities explained above, depending on one's area of specialization this could he;
- Economics
- Insurance
- Management
- Banking
- Finance
- Actuarial science
- Accounting
- Industrial relations

- Personnel management
- Public administration
- Marketing
- Secretarial administration
- **Professional Examinations:** In some of the professions listed above, there is need for higher professional examination to be taker so as to attain lop management level in an organization.

Some of the institutes conducting professional examinations are:

1. Chartered Institute of Bankers of Nigeria (CIBN)
2. Institute of Chartered Accountants of Nigeria (ICAN)
3. Nigerian Institute of Marketing (NIMARK)
4. Chartered Institute of Taxation
5. Nigerian Institute of Management (NIM)
6. Chartered Institute of Insurance

All graduates of commercial courses arc eligible to sit for the examination of the various institutes listed above. Candidates must have a minimum of five credits, including English. Mathematics and Economics in O'level examinations.

Test & Exercise

1. The following are the types of management positions except ……. (a) Personnel Officers (b)Management Trainees (c)Security personnel (d)Middle Level Managers
2. Which of the following is not a job opportunities for accounting professionals? (a)Fashion designer (b)Tax Consultant (c) Financial Managers (d)Cost Accountants
3. One of the following is not among institutes conducting professional examinations. (a) Institute of Chartered Accountants of Nigeria (ICAN) (b) Nigerian Institute of Marketing (NIMARK) (c)International Monetary Fund (IMF) (d)Chartered Institute of Bankers of Nigeria (CIBN)
4. Career opportunities in the private sector include the following except …… (a) Managers (b)Budget analyst (c) Cost Accountants (d) Account Clerk
5. The Basic requirement for top management or executive level is ……. (a)Master or Second degree (b)first degree (c)Senior school certificate (d)Testimonial

Week 3

Topic: Factors Affecting the Growth of Commerce in West Africa

CONTENTS

- Factors Affecting the Growth of Commerce in West Africa
- E-commerce – Definition
- Tourism – meaning, forms, advantages and disadvantages

FACTORS AFFECTING THE GROWTH OF COMMERCE IN WEST AFRICA

Insufficient capital: African countries lack sufficient capital to cope with the expanding nature of business activities; the level of capital formation is low.

Political instability: Constant change of government and war has hindered investment in West-Africa. Foreign investors are afraid to invest in the sub-region.

Low savings: The culture of saving is very low in West Africa and Africa as a whole; hence there is no money for commercial transactions.

Low per capital income: Per capita income is very low. Majorly of people in this region are living below the poverty line. The low level of income leads to low purchasing power for the people.

Lack of adequate commercial facilities: The various aids to trade, such as banks', insurance, warehouses, and tourism are not well developed and this has greatly hindered commerce.

Predominance of primary production: Majority of people in this region is engaged it primary agricultural production which does not favour speedy commercial growth.

Poor transport and communication system: The region has very poor road network as well as poor communication systems. Most of the people have no access to telephone or internet.

Service Occupation: These are occupations that render services to people. Services involve doing something for the consumers which could be personal or indirect services. The consumers pay for the services directly or indirectly. Examples of such workers include: housemaid, civil servant, barbers, police force, etc.

Low levels of education and illiteracy: The high rate of illiteracy in this region has also afflicted the growth of commerce. Many of the people are not educated: they can neither read nor write and consequently cannot interact with foreign traders in a business transaction.

Absence of well developed market: Market in West Africa are not well developed to accommodate large scale commercial activities.

E-COMMERCE

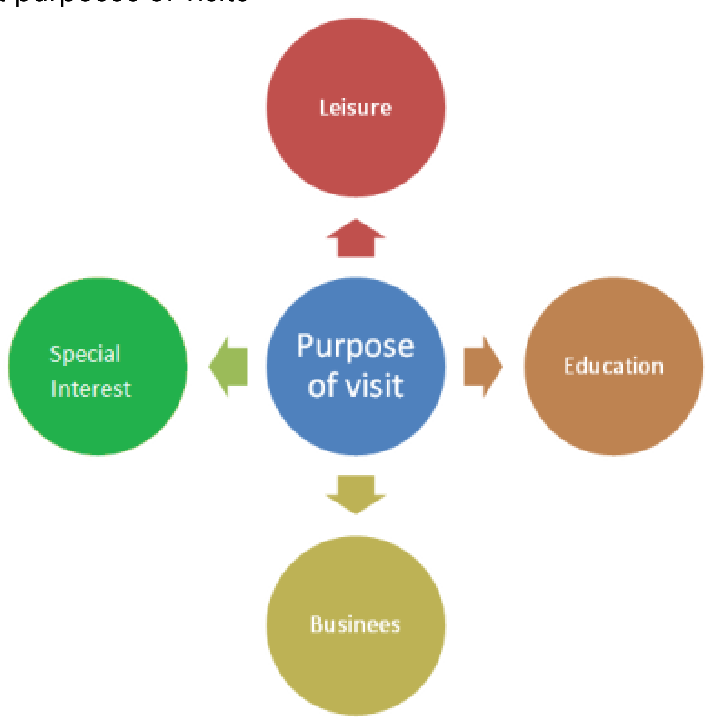
E-commerce (electronic commerce or EC) is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet. These business transactions occur either as business-to-business, business-to-consumer, consumer-to-consumer or consumer-to-business. The terms e-commerce and e-business are often used interchangeably.

TOURISM

Tourism refer to the trips that involve travelling of people outside the place of their residence or work for leisure, pleasure, vacation, business, personal, or other purposes. Tourism is a critical source of income for many countries and it generates income through the consumption of goods and services by tourists, the taxes levied on businesses in the tourism industry, and the opportunity for employment in the service industries associated with tourism.

FORMS OF TOURISM

There are different purposes of visits



Based on the purpose of visit tourism is categorized into the following

Leisure tourism: Tourists may travel to experience a change in climate and place and learn something new, enjoy pleasant scenery, or to know more about the culture of a destination. Tourists, who seek break from the stress of day to day life, devote their holiday to rest and relaxation, refresh themselves. These tourists prefer to stay in some quiet and relaxed destination preferably at a hill resort, beach resort or island resort. Nowadays tourists undertake various adventure sports activities for leisure and to refresh themselves after working hard. This tourism includes following forms based on the activities undertaken.
Cultural tourism: It is also called as heritage tourism. People are curious to know about foreign lands and their cultures. Culture is most important factors which attracts tourists to a destination.
Cultural tourism gives insight to

- Way of life of the people of distant land
- Dress, jewellery, dance, music, architecture
- Customs and traditions
- Fairs and festivals
- Religions
- Culinary delights

Religious tourism: It is also called as Pilgrimage tourism / Spiritual tourism. It is a form of tourism, where people travel individually or in groups for pilgrimage. The world's largest form of mass religious tourism takes place at the annual Hajj pilgrimage in Mecca, Saudi Arabia. Modern religious tourists are more able to visit holy cities and holy sites around the world. The most famous holy cities are Jerusalem, Mecca and Varanasi.

Family tourism: Family tourism involves the family unit and their participation in diverse forms of tourism activity. This includes visiting one's relatives and friends for interpersonal reasons. Many people in India travel for visiting their friends and relatives. While visiting friends or relatives, people also visit tourists' attractions in and around the city.

Health tourism: Health tourism is also called as Medical tourism. People have been travelling for centuries to improve and rebuild their health and stamina. Today, many people travel great distances to exotic locations or health care facilities in faraway countries, in search of medical treatment and care. Medical tourism is an age-old concept that has gained popularity in the recent times. Many developing countries are emerging as hot medical tourism destinations capitalizing on low cost advantages. Many hospitals have specially designed packages including resorts facilities.

Sports Tourism: Sports Tourism refers to travel which involves either viewing or participating in a sporting event staying apart from their usual environment. Sport tourism is a fast growing sector of the global travel industry. Sports tourism refers to people travelling to participate in a competitive sport event. Normally these kinds of events are the motivators that attract visitors to visit the events like Olympic Games, FIFA World Cup. Sports tourism can be adventurous also. Adventure sport tourism is also called as Adventure tourism.

Educational Tourism: Educational tourism developed, because of the growing popularity of teaching and learning of knowledge and the enhancing of technical competency outside of the classroom environment. In educational tourism, the main focus of the tour visiting another country to learn about the culture, such as in Student Exchange Programs and Study Tours, organizing specialized lectures of the eminent personalities and for research.

Business Tourism: The business traveler's main motive for travel is work. Tourists visit a particular destination for various reasons pertaining to his /her work such as attending a business meeting, conferences, conventions selling products, meeting clients. Business tourism is popularly called as MICE (Meetings, incentives, conferences, and exhibitions) tourism.

ADVANTAGES OF TOURISM

Now-a-days, tourism is the flourishing industry. The advantages of tourism includes employment opportunity, growth of service sector, foreign exchange earnings, opportunity for recreation, economic growth, cultural exchange, better international relations, enjoyment, better health and wellness.

1. Employment: Tourism provides employment opportunity for local people. Tourism industry is growing very rapidly in India employing millions of people.

2. Growth of Service Sector: Services sector engaged in tourism sector get the most out of tourism sector. A large number of businesses engaged in service sector such as airlines, hotel, surface transportation, etc. grows with the growth of tourism industry.

3. Foreign Exchange earning: Many tourist destinations attract a good number of foreign tourists. This helps the country earn foreign exchange.

4. Recreation: Travel based recreation provides relief from the monotony of daily routine. A change in place and climate helps a traveler to recharge his mind, body and spirit.

5. Economic growth: Tourism helps in the development of economy of a country. It helps in the overall GDP development of a country. It helps the local people to earn their livelihood. The tourists spend lavishly during vacation. The local people engaged in assisting the tourists earn a good income.

6. Meet new people: It helps the local people to get in touch with the people and country. It also helps building international relations.

7. Cultural exchange: Tourism gives opportunity to people of various cultures to assimilate together. People belonging to various cultures meet together and understand each other.

This gives them an opportunity to build respect for each other. Hence, it fosters cultural harmony.

8. Health and wellness: Many people visit other places for the purpose of getting treatment for diseases, improving health and prevent diseases. This is called Medical and health tourism. Wellness tourism aim at achieving complete mental, psychological and physical well-being. There are many tourism destinations offering yoga, aerobics, and other therapies for improving health and wellness.

9. Fun and enjoyment: Many people travel for fun and enjoyment. They simply do whatever excites them, or gives them enjoyment.

10. Spend time with families: The life of modern people is hectic. They are too busy in their professional life. There is immense pressure even on children. Hence, such people plan for a holiday trip to spend quality time with their families.

DISADVANTAGES OF TOURISM

The disadvantages of tourism includes increased expenditure, time-consuming, environmental hazards, loss of architecture and ecological balance, increase in waste products, damage to wild-life, and disruption in socio-economic and cultural setup.

1. Tourism involves huge expenditure on part of the tourists. Travelling costs includes vehicle hire charges, hotel and resort rent, food cost, etc. This increases the overall spending of the person.

2. You need to take out few days out of your busy schedule to visit tourist places. Hence, tourism is often time-consuming.

3. Leisure trips are good for health, mind and body. However, hectic trips may cause stress and effect health.

4. It may also lead to environmental hazards such as environmental pollution due to use of cigars, plastic bags.

5. In order to attract more tourists and earn more profits sprawling resorts are built cutting down thousands of casuarinas trees beside sea beaches.

6. These resorts destroy both scenic beauty of the place by paying no attention to local architecture and ecology.

7. As a result of indiscriminate construction of high-rise buildings and infrastructure facilities, the provision of water supply and waste disposal facilities may get disrupted.

8. Famous tourist spots attract an inflow of residing population. This may lead to an increase in demand for residential houses, roads, and food for permanent population. Under such

situation, an increase in tourist activities beyond certain level may adversely affect the economy of the state.

9. Overuse of natural wealth is a serious problem, tourist overuse of mountain trails resulting in abundance in dumping of waste products, food tins, etc.

10. Damage to wildlife parks is a visible phenomenon. The ground vegetation may suffer due to the tourists' shoes. Food habits of animal impaired.

11. Due immense changes, pollution, and dirt, the landscape may lose its scenic beauty.

12. Tourism may have damaging socio-cultural effects. Local people demean themselves to earn more or imitate alien culture, new lifestyles, foreign culture.

Exercises

1. What are the factors that adversely affect the growth of commerce in West Africa?

2. Explain five (5) factors that contributed to the growth of commerce.

3. Define tourism.

4. Describe six (6) forms of tourism.

5. Explain five (5) advantages and disadvantages of tourism.

Week 4

Topic: The Barter System – Introduction and Problems

CONTENT – Barter System

Problems Of Barter System

BARTER SYSTEM

The direct exchange of one commodity or service for another without the use of money is termed "Barter" in economics. Barter system is that in which no money exist. In other words it is moneyless economy up to some extent it is still available in our villages. The village, Blacksmith and Carpenter usually receive his reward in terms of wheat from the farmers.

For example, when a weaver gives cloth to the farmer in return for getting wheat from the farmer, this is called barter exchange. Similarly the farmer can get other goods of his requirement like shoes, cow, plough, spade, etc. by giving his surplus wheat (or rice or maize). Thus, the system of barter exchange fulfills to some extent the requirements of both the parties involved in exchange.

PROBLEMS OF BARTER EXCHANGE

1. Lack of double coincidence of wants:

Double coincidence of wants means what one person wants to sell and buy must coincide with what some other person wants to buy and sell. 'Simultaneous fulfillment of mutual wants by buyers and sellers' is known as double coincidence of wants.

There is lack of double coincidence in the wants of buyers and sellers in barter exchange. The producer of jute may want shoes in exchange for his jute. But he may find it difficult to get a shoe-maker who is also willing to exchange his shoes for Jute.

Thus, a seller has to find out a person who wants to buy seller's good and at the same time who must have what the seller wants. This is called double coincidence of wants which is the main drawback of the barter exchange.

2. Lack of common measure of value:

In barter, there is no common measure (unit) of value. Even if buyer and seller of each other commodity happen to meet, the problem arises in what proportion the two goods are to be exchanged. Each article must have as many different values as there are other articles for which it is to be exchanged.

When thousands of articles are produced and exchanged, there will be unlimited number of exchange ratios. Absence of a common denominator in order to express exchange ratios creates many difficulties. Money obviates these difficulties and acts as a convenient unit of value and account.

3. Lack of standard of deferred payment:

There is problem of borrowing and lending. It is difficult to engage in contracts which involve future payments due to lack of any satisfactory unit. As a result, future payments are to be stated in term of specific goods or services. But there could be disagreement about the quality of the good, specific type of the good and change in the value of the good.

4. Difficulty in storing wealth (or generalised purchasing power):

It is difficult for the people to store wealth or generalised purchasing power for future use in the form of goods like cattle, wheat, potatoes, etc. Holding of stocks of such goods involves costly storage and deterioration.

5. Indivisibility of goods:

How to exchange goods of unequal value? If a household wants to sell his cow and get in exchange cloth equal to the value of half of his cow, he cannot do so without killing his cow. Thus, lack of divisibility of goods makes barter exchange impossible.

In order to overcome the above disadvantages of the barter system, money was invented by the society.

Exercises

1. What is trade by barter?

2. Paint a trade scenario in a barter system.

3. Explain four (4) problems associated with barter system.

4. Why is money a better means of trade?

Week 5

Topic: Occupation – meaning, classification with diagram

Content-

Meaning of Occupation

Classification of Occupation with Diagram

Factors that determine the types of occupation and employment

MEANING OF OCCUPATION

Today, people engage in various activities to earn a living and to satisfy their numerous wants.

Occupation can be defined as any economic or productive activities which people engage in to create and produce goods and services in order to make a living.

In order to satisfy human numerous wants, people engage in one occupation or another, at least to meet up with the three basic needs of man which are; food, shelter, and clothing in addition to other needs to make life more comfortable.

These are various kinds of occupation that a person can do to earn a decent living. Some occupations involve extracting resources from the soil and water e.g. farming, fishing, mining or changing the form of raw material to finish goods or semi-finished goods e.g. manufacturing, extraction and construction while other provides service like police, doctors, teaching, etc.

Classification of Occupation

Businesses are classified according to the nature of the work involved. Therefore, occupation can be classified into three main groups:

1. Industry
2. Commercial

- **Services**

1. Industrial Occupation**:** This involves those who engage in the physical production of goods or changing of raw materials into finished or semi-finished goods or products.

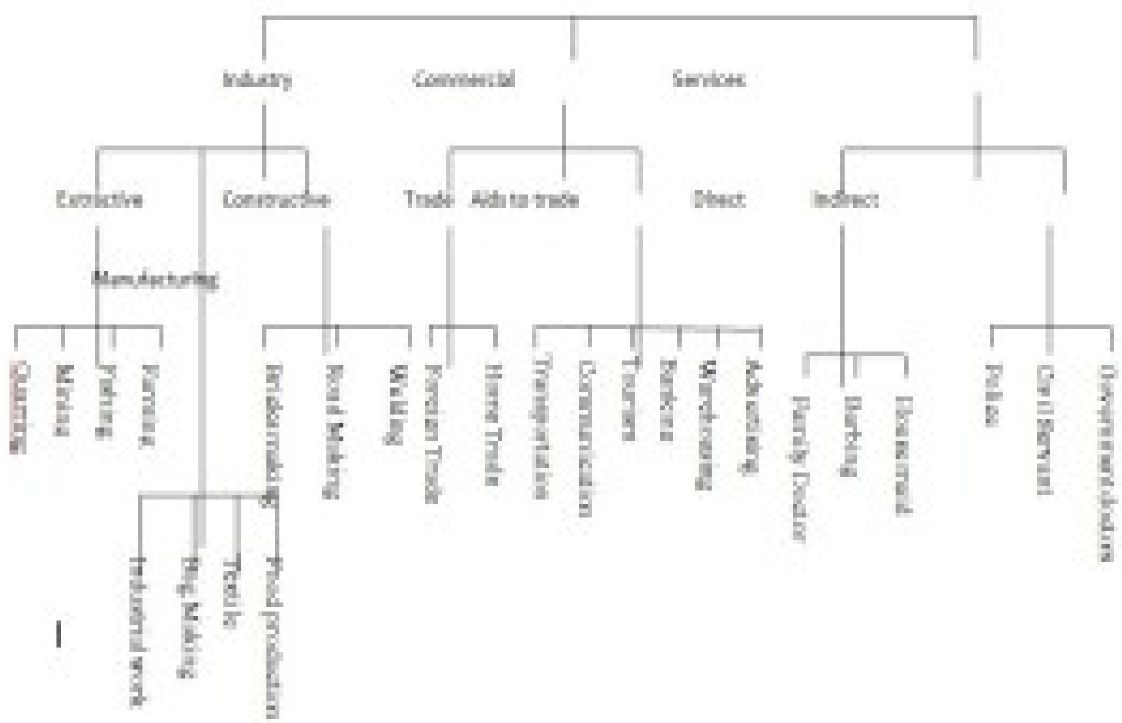
They also include the assembling and putting of component parts together to make it whole.

Examples of industrial occupation are extraction, manufacturing and construction. Also examples of industrial workers include: farmers, fishermen, welders, plumber, miners, etc.

2. Commercial Occupation**:** This refers to all the people involved in the distribution and exchange of goods produced by the industrial sector. Examples of commercial workers are: bankers, transporters, insurers, traders, etc.

- **Service Occupation:** These are occupations that render services to people. Services involve doing something for the consumers which could be personal or indirect services. The consumers pay for the services directly or indirectly. Examples of such workers include: housemaid, civil servant, barbers, police force, etc.

The diagram below explains more on the classification of occupation



Factors That Determine the Types of Occupation and Employment

1. Climatic and Weather Difference**:** The climatic and weather condition of a particular place determines the nature of occupation available in such area .e.g. Farmer will be many in a place where there is farm land.

2. Education and skill**:** These also affect and determine the type of occupation, as learned people will be placed in a skillful or expert job area.

3. Natural Resources: The availability of resources does determine the choice of occupation that people will engage in. For instance, miners will be many an area where there are mineral resources.
4. Government Policies**:** This also determines the type of occupation as the government places age limit on those seeking for employment.
5. Salary and Wages**:** Here, the remuneration involved and condition of service also affect and determine the kind of occupation people involve in.

Tests and Exercises

1. Occupation can be classified into the following except …… (a) Trade (b) Services (c) Commercial (d) Industry.
2. **ANSWER**: Trade
3. ……….. is one of the factors that determine the types of occupation. (a)Services (b) Government Policies (c) Government account (d) Trade.

   ANSWER: Government account

4. ……… occupation engages in the physical production of goods or changing of raw materials into finished or semi-finished goods. (a) Service (b) industrial (c) commercial (d) constructive.

   ANSWER: Industrial

5. The economic activity that people engage themselves in to earn a living is ……. (a)Specialisation (b) privatization (c) occupation (d) indigenization.

   ANSWER: occupation

6. The following are the factor that determines occupation except …… (a) Climatic and Weather Difference (b) Salary and Wages (c) Natural Resources (d) Government Account.

   ANSWER: Government account

Week 6

Topic: Production

Content

- Definition of production
- Classification of production
- Primary, Secondary and Tertiary production

Production is a process of combining various material inputs and immaterial inputs (plans, know-how) in order to make something for consumption (the output). It is the act of creating output, a good or service which has value and contributes to the utility of individuals.

Production can also be defined as the creation of utility or the creation of goods and services for the purpose of satisfying human wants.

It is the transformation of raw materials into finished goods and their distribution to the consumer in other to satisfy their wants.

Economic well-being is created in a production process, meaning all economic activities that aim directly or indirectly to satisfy human needs. The degree to which the needs are satisfied is often accepted as a measure of economic well-being. In production there are two features which explain increasing economic well-being. They are improving quality-price-ratio of commodities and increasing incomes from growing and more efficient market production.

One major thing about production is that it is not complete until it gets to the final consumers.

Classification of production

Production is categorized into two major parts, which are:

Direct and indirect production

Direct Production: This is when an entity is capable of producing all of the materials necessary for their product production by using their own skill sets without focusing on one product or requiring a staff to perform different jobs.

Direct production also mean the type of production in which an individual produces goods and services only for the family use or consumption, the goods and services produced are not for sale but for the family consumption.

Indirect production: The production of an item necessary for the manufacturing of major services and goods. Indirect production is an economic term that refers to the process of producing something in an indirect manner. This may be achieved through the use of another item for the production of the final good, or it may be achieved through the production of something to be used as a means to obtaining another item. In either case, the item that is produced is merely used as a means for the production or procurement of the final item. It is the type of production of goods and services mainly for sale or exchange for other needs.

An example of indirect production can be seen in the production of an item expressly for the purpose of producing other items. Usually, the indirect product is a form of machinery or equipment that is used to produce other objects. For example, a company that makes prefabricated houses might construct patented equipment that serves as a mold for the construction of a portion of the exterior for the prefabricated homes. In this case, the machinery is merely the means that is used for the production of the final product and is consequently a form of indirect production.

Indirect production is sub divided into three major groups, which are:

1. **Primary production**
2. **Secondary production**
3. **Tertiary production**

Primary production: Primary production refers to the extraction of raw materials provided by nature. It is concerned with the process of obtaining raw materials in their natural form, from land, water, and air. Examples of primary production are agriculture, mining, lumbering, fishing,

Secondary Production: Secondary production involves the transformation or conversion of raw materials into finished goods, the extractive materials from the primary production are converted into goods the consumer will find consumables. Examples are clothes, processed food, cars, beverages etc.

Tertiary Production: This is the provision of professional or commercial services to people; it is the means by which the foods produced at the primary and secondary level are distributed to the people for consumption. Those involved in this aspect of production are the retailers, wholesalers, and those involve in rendering professional services like lawyers, doctors etc.

Test and Exercise

1. The transformation of raw materials into finished goods and their distribution to the consumers to satisfy their wants is (a) specialization (b) division of labor (c) production (d) occupation. ans (c)
2. The major types of production are (a) direct and indirect (b) primary and secondary (c) specialization and non specialization (d) utility and satisfaction. ans (a)

3. Production can said to be complete when the goods and services get to the (a) producer (b) wholesaler (c) consumer (d) retailer. ans (c)

4. All of these are the types of indirect production except (a) primary (b) formal (c) tertiary (d) secondary. ans (b)

The type of production where individual produces goods and services only for the family use or consumption is (a) primary production (b) indirect production (c) tertiary production (d) direct production. ans (d)

Week 7

Topic: Production

Content– Factors of production

Division of labor

Specialization and exchange

The Factors of Production are

1. Land
2. Labour
3. Capital
4. Entrepreneur

LAND: The land is refers to as the natural gift of nature, the land are resources or material supplied by nature, it includes not only the earth surface but all other natural resources like the rivers, the forests, the mineral resources, the atmosphere etc. The reward for land is ‘rent’.

Characteristics of land

1. Land is a free gift
2. Land is immobile

- Land has no cost of production

1. The supply of land is fixed
2. Land varies
3. The reward is rent.

LABOUR: Labour as a factor of production is refers to as the mental and physical effort undertaken for the purpose of production. Human beings provide the necessary labour combines with the other factors of production to provide goods and services. The reward for labour is ‘wages and salaries’. Types of labour are skilled and unskilled labor; skilled labours make use of their mental effort in the production process, examples are accountants, doctors, teachers, engineer etc and their job are usually referred to as white collar jobs. While an unskilled labour do not make use of mental effort because they do not go through training but use their physical effort or energy in the process of production.

Examples of an unskilled labour is cleaners, messengers, guards etc, and their job are usually referred to as brown collar jobs

Characteristics of Labour

1. Labour is mobile
2. Labour is a human factor

- Labour has feelings

1. Labour is not fixed
2. Labour controls other factors of production
3. Labour is skillful

- Labour is perishable and cannot be predicted
- Labour has initiative

1. Labour requires motivation
2. The reward for labour is wages and salaries

CAPITAL: Capital can be defined as the man-made assets In the production process, it is the man made wealth or goods used to produce other goods and services. Examples of capital include physical cash (money) machines, buildings, cutlass, motor vehicles etc. The reward for capital is 'interest'. Types of capital are fixed capital, working capital, liquid capital etc.

Characteristics of Capital

1. It is man made
2. It is durable

- It ensures large scale production

1. It is subject to depreciation
2. It exist in different forms

ENTREPRENEUR: This is the factor of production that co- ordinates and direct other factors of production in other to produce other factors of production. The entrepreneur bears the risk and takes the major decision on the business. The reward for the entrepreneur is 'profit'

Characteristics of the Entrepreneur

1. They make decision
2. They bear the risk

- They provide capital

1. They ensure effective and efficient management
2. They determine price policy

DIVISION OF LABOUR

Division of labour refers to the division of a large task, contract, or project into smaller tasks—each with a separate schedule within the overall project schedule. Division of labour, instead, refers to the allocation of tasks to individuals or organizations according to the skills and/or equipment those people or organizations possess. Often division of labour and division of work are both part of the economic activity within an industrial nation or organization.

It is defined as the breaking down of a production process into a number of separate operations, whereby each operation is undertaken or performed by one person or group of persons.

SPECIALIZATION

Specialization is defined as the concentration of the productive efforts of an individual, a firm or a country in a given aspect of economic activity or on a particular line of production in which it has the greatest advantage over others. It is the act of pursuing a particular line of work where a person is more effective over others.

Specialization is also the permanent engagement of people in one aspect of the production process for better operation.

Specialization occurs as a result of division of labor. It is the performance of a single job or economic activity in which an individual, firm or a country has a comparative advantage.

Types of Specialization

1. **Specialization by Products**: This is the type of specialization where an individual, firm or Government concentrates their production on a particular type of product or commodity. For instance a firm who concentrates on the production of shoes alone.
2. **Specialization by Sex**: This is the kind of specialization where some certain kind of job are exclusively for either male or female as dictated by either custom or tradition. For instance the driving of trailers is done by men while the making of hair is done by female.

3. **Geographical or territorial specialization**: This is the kind of specialization where people living in a particular geographical or territory specializes in producing particular products because of the nature of the weather and natural resources in the area, for instance; the availability of petroleum in Niger delta makes them to specialize in drilling of petroleum.

4. **Specialization by Process**: This the means by which a production process is divided into different stages and each worker or firm now concentrate on only aspect of the production. In a bakery for instance; a person may specialize in the mixing of flour.

EXCHANGE

Exchange is the act of giving out value in order to have something of value in return. It means to give up (something) for something else.

Exchange arises as a result of excess production of goods and services, in the olden days, it was barter, where goods are exchange for goods but nowadays goods are exchange for money.

Test and Exercise

1. The factor of production that is free in nature is (a) land (b) labour (c) capital (d) entrepreneur. ans (a)

2. ——————- is responsible for the coordination and direction of all other factors of production. ans (a) land (b) labour (c) capital (d) entrepreneur. ans (d)

3. The reward for capital as a factor of production is (a) rent (b) interest (c) profit (d) wages and salaries. ans (b)

4. A labour who uses is trained, and uses his mental effort in the production of goods and services is a (a) skilled labour (b) unskilled labour (c) formal labour (d) informal labour. ans (a)

5. The breaking down of production process into a number of separate operations is (a) specialization (b) production (c) division of labour (d) all of the above.

Week 8

Topic: Inter-relationship among production, specialization and exchange

Contents – Inter-relationship among production, specialization and exchange

The relationships between these concepts cannot be over emphasized.

Exchange is only possible because of **production** and **specialization.** Production which is the creation of utility in the aspect of goods and services can be enhance through the breaking down of jobs into different segments. Division of labor and specialization therefore leads to increase or excess in production, this excess therefore needs to be exchange for what others have also produced, for instance a producer of shoes can exchange shoes for clothes through the means of money. Specialization facilitates production and trade.

Exchange as a concept can be defined as the process of giving out value in order to have something of value in return.
Exchange is regarded as an outcome of specialization and production. They are related in the sense that production, which is the creation of goods and services, can be enhanced greatly when the processes are broken into stages to be performed by different people. Division of labour and specialization lead to mass production.

Exercises

1. Production which is the creation of ______ (a) commerce (b) trade (c) utility (d) markets

2. Define exchange.

3. How does exchange facilitate production and specialization.

Week 10

Topic: Trade – definition and types of trades, Home Trade, Foreign Trade

Content – Trade – Definition

Types of Trade

Home Trade

Foreign Back

Diagram of Division of Trade

Trade is simply defined as the act of buying and selling of goods and services.

Trade is a basic economic concept involving the buying and selling of goods and services, with compensation paid by a buyer to a seller, or the exchange of goods or services between parties. The most common medium of exchange for these transactions is money, but trade may also be executed with the exchange of goods or services between both parties, referred to as a barter.

TYPES OF TRADE

Trade is divided or classified into two major groups. These are

Home Trade and

Foreign Trade

HOME TRADE

Home trade is referred to as domestic or internal trade. It is the act of buying goods and services within a geographical location usually a country. In home trade, the same kind of currency is used for the means of exchange (buying and selling). It is a branch of commerce which comprises wholesaling and retailing.

Types of Home Trade

1. Retail trade
2. Wholesale trade.

RETAIL TRADE: Retail trade is the business activity of selling goods and rendering of services to the final consumer. It is the final link in the chain of distribution of goods and services and the aim is to make goods available to the final consumers.

Traders who involve in retail function or activities are found everywhere because consumers are everywhere. Retail trade is carried out by a retailer

A Retailer can be defined as the person or a trader who buys goods in small quantities from the wholesalers and sell in smaller units directly to the final consumers.

Functions of the Retailer

1. The retailer sells in small quantities to the consumers; they buy from the wholesalers and break the goods into unit to sell to the consumer.
2. The retailer sells at convenient locations and hours: They sell to the consumers at any time of the day.
3. Stock variety f goods: The retailers are exposed to wide range of goods, they sell all kinds of things at the same time, a consumer can therefore get whatever he needs.
4. They render door to door services
5. They can also sell on credits to the consumer due to the personal business relationship that exist between them
6. They give advice to the consumers in making their choice
7. They deliver goods to customers on request
8. He supplied information to the wholesaler and producers
9. He provides after sales service to consumer
10. A retailer maintains a close relationship with consumer.

Factors to be considered in setting a retail business.

The following should be considered and put into consideration before setting a retail business. These are:

1. capital
2. The types of goods
3. Terms of trade
4. Location of the business
5. Source of supply

6. Experience

CLASSIFICATION OF RETAIL TRADE

Retail activities can be classified into small scale and large scale

SMALL SCALE RETAIL TRADE

Small scale retail business is is the means of trading with a small scope of operations. Little capital can be used to set up a small scale retail business. Examples of small scale retail business are: mobile shops, street or roadside trading, Kiosks, Small stores, Hawking etc.

1. Mobile shops: This is a situation where goods are arranged in a motor van and are moved from one place to another to reach the final consumers.
2. Street or roadside trading: This traders display their goods along the road or streets or outside the gate of schools or in front of companies for people passing by to see them and patronize them.
3. Kiosks: Kiosk is a small store located in front of residential houses of the retailers, they handle very small unit of goods, they sell petty goods like bread, biscuits, sweets etc. They display their goods inside the kiosk or containers erected in front of their house.
4. Hawking: Hawking is a method by which the merchants move their goods from one place to another on their heads; it involves the movement of goods from one place or house to another. Other examples of small scale retail business are
5. Small stores
6. Market Trader

Advantages of Small Scale Retail Trade

- It requires little capital
- It is near to the consumers
- It creates employment opportunities
- It requires a low running cost
- Long hours of supervision
- Medium of advertisement

Disadvantages of Small Scale Retail Trade

- It does not encourage expansion

- The profit in the business is usually low
- The retailers have no technical knowledge about the goods sold
- The location of small scale trade is poor
- They lack good capital to run the business

LARGE SCALE RETAIL TRADE

Large scale retail trade has a large scale of operation; the retailers achieve their growth by increasing the physical size of their units to cater for more customers. Examples of large scale retail trade are:

- **Chain or multiple stores:** This is a chain of similar shops with identical store design, layout and stock display.
- **Variety stores:** This is a store which handles a wide assortment of goods necessarily related to each other.
- Retail co-operative society: This is a form of cooperative in which many small independent retailers pool their resources together to enable them make bulk purchase and later sell the goods at lower price to their members.
- **Franchising:** This is a type of retail operation in which a conditional right is given to the retailer to make to market the franchise i.e. a company's products or service under the banner of the company which is the franchisers. The franchiser supply the names, product and everything needed and enters into contract with the retailer on how to go about the profit sharing.
- **Mail order:** This is a means of retail trade where buying and selling is carried out by post, they make order by mail and receive the goods by mail
- **Super market:** A supermarket is a large retailing business unit selling mainly food and household items on the bases of high turnover. Super markets are self service outlets with a minimum selling area of 2000 square feet.
- **Hyper market:** Hyper markets are large super markets usually with a minimum of 25 check points with at least 50,000 square feet of selling space all on a single level. They are general Merchandise warehouse selling all food items, drinks, clothing and furniture etc

Advantages of Large Scale Retail Trade

1. Access to larger capital: They have access to larger capital of finance which helps them to make more profit.

2. Stock varieties of goods: their large size gives them the ability to stock variety of goods.
3. It facilitates e-commerce; It gives room for electronic buying and selling.
4. It requires few sale attendances: Only few sales attendances are needed because customers do self service.
5. They operate on cash and carry.
6. They offer after sale service to consumers
7. There is extensive advertisement

Disadvantages of Large Scale Retail Trade

1. They do not give credit facilities to customers
2. Less attention is given to customers since there are usually price tags on goods.
3. It is usually common and restricted to those in the urban area.
4. There is high cost of operation
5. There is no opportunity to bargain
6. There is high rate of pilfery as a result of self service
7. It involves high cost to operate.

FOREIGN TRADE

Foreign trade is also known as international trade, it is defined as exchange of goods and services between two or more countries.

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Generally no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside.

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries".

According to Anatol Marad, "International trade is a trade between nations".

According to Eugeworth, "International trade means trade between nations".

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is in principle not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade.

The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. International trade consists of 'export trade' and 'import trade'. Export involves sale of goods and services to other countries. Import consists of purchases from other countries.

International or Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results into. Outflow and inflow of foreign exchange. Thus it is also called EXIM Trade.

For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation.

Types of Foreign Trade

The Types of Foreign Trade are:

1. Bilateral trade: This is a trade agreement in which two countries exchange goods and services e.g trade between Nigeria and Ghana.
2. Multilateral trade: This is the type of international trade where a country trade with two or more countries e.g when Nigeria trades with Ghana, USA, Russia and Togo.

Division of Foreign Trade

1. **Import Trade**: Import trade refers to purchase of goods by one country from another country or inflow of goods and services from foreign country to home country. Import trades are sub divided into visible imports or invisible imports. Visible imports are goods that can be seen or touched while invisible imports are services that cannot be seen or touched.
2. **Export Trade**: Export trade refers to the sale of goods by one country to another country or outflow of goods from home country to foreign country. This is also divided into visible and invisible; visible export are goods which are sold to other countries like palm oil, cocoa, crude oil ,cotton etc. while invisible are services rendered to other countries e.g. insurance, banking tourism etc.
3. **Entrepot Trade**: Entrepot trade is also known as Re-export. It refers to purchase of goods from one country and then selling them to another country after some processing operations.

Reasons for International Trade

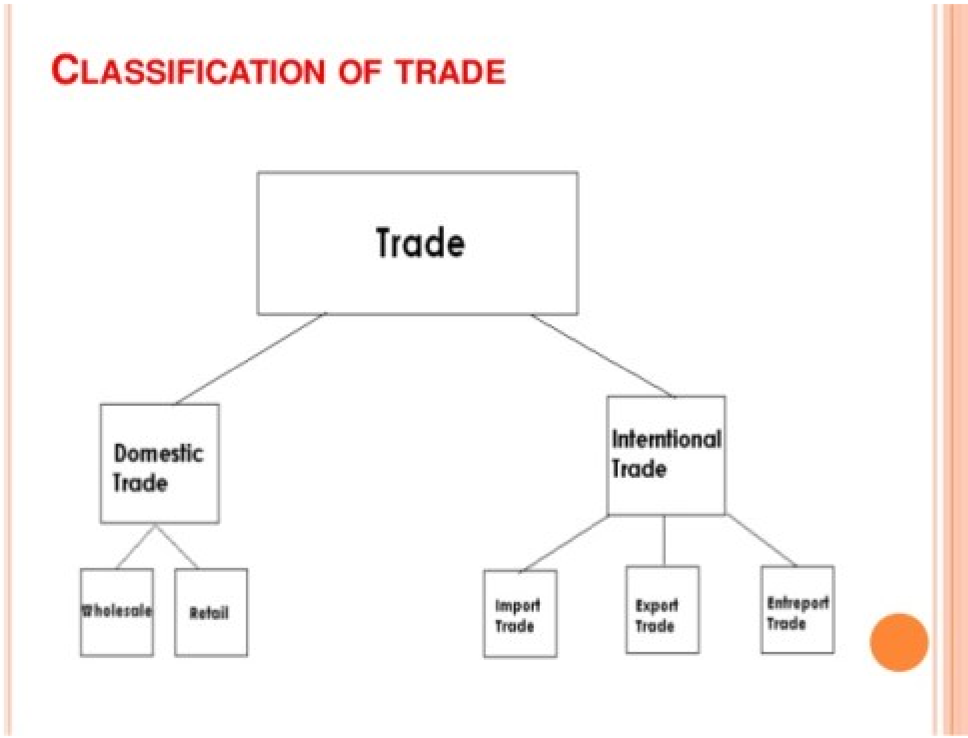
1. **Uneven distribution of natural resources:** There is a long list of reasons that countries may want to engage in trade with one another. To begin with, a country may not have the raw materials that are necessary to produce certain types of goods. Yet those goods may be essential to the lives of a nation's populace. This makes it necessary for the nation in need to acquire those raw materials from the sources that possess them. On the contrary, those nations that possess these raw materials may have few other sources of revenue. An issue often faced in third-world countries is that they are resource-rich yet economically poor.
2. **Expansion of market for products:** Foreign trade is necessary as it helps to widen the market for goods produced.
3. **Difference in taste:** the need to change the taste of what a country have been consuming and due to difference in taste , international trade is then important. Other reasons are
4. Difference in technology

5. Difference in skills
6. Difference in climatic condition
7. Desire to improve the standard of living
8. Difference in efficient use of natural resources

Barriers to International Trade

1. Difference in currency
2. Difference in culture and beliefs
3. Difference in language
4. Distance
5. Political instability
6. Problem of documentation
7. Transportation and communication
8. Government policy
9. Difference in legal system/ emigration laws
10. difference in weights and measurement

DIAGRAM OF DIVISION OF TRADE



Test and Exercise

1. One of the major barrier to international trade are these except (a) distance (b) communication (c) transportation (d) personality, ans (d)
2. Entre-port means (a) selling goods and services to other countries (b) re-exporting of goods from other countries (c) buying goods and services from other countries (d) buying and selling of goods from different countries. ans (b)
3. Types of foreign trade are (a) import and export (b) entre-port and export (c) bilateral and multilateral (d) none of the above. ans (c)
4. The selling of goods that can be seen and touch is (a) visible export (b) invisible export (c) visible import (d) invisible import.ans (a)
5. The buying of goods that can be seen and touched is (a) visible export (b) invisible export (c) visible import (d) invisible import. ans (c)

SS 1

COMMERCE

SECOND TERM

TABLE OF CONTENT

Week 1

Topic- Revision Of Last Term Work

Content-

1. Explanation of retail trade
2. Classification of retail trade into small and large scale with diagrams

RETAIL TRADE

Retail is the sale of goods to end users, not for resale, but for use and consumption by the purchaser. Retail involves the sale of merchandise from a single point of purchase directly to a customer who intends to use that product. Retailing is concerned mainly with the buying of goods in small quantities from the wholesalers and making it available in units to the consumers. Retail trade is the business activity of selling goods and services to the final consumer. The retailer is the final link in the chain of distribution.

The single point of purchase could be a brick-and-mortar retail store, an Internet shopping website, a catalogue, or even a mobile phone. Manufacturers sell large quantities of products to retailers, and retailers attempt to sell those same quantities of products to consumers.

CLASSIFICATION OF RETAIL TRADE

There are two main types of retail trade:

1. Small – scale retailing

a. Pedling/Hawking/itinerary

b. Mobile shops

c. Street or roadside trading

d. Market/stall trader

e. Unit stores/tied shops

f. Small stores

g. Kisoks

2. Large – scale retailers

a. Multiple shop (chain store)

b. Departmental stores

c. Variety chain store

d. Supermarket

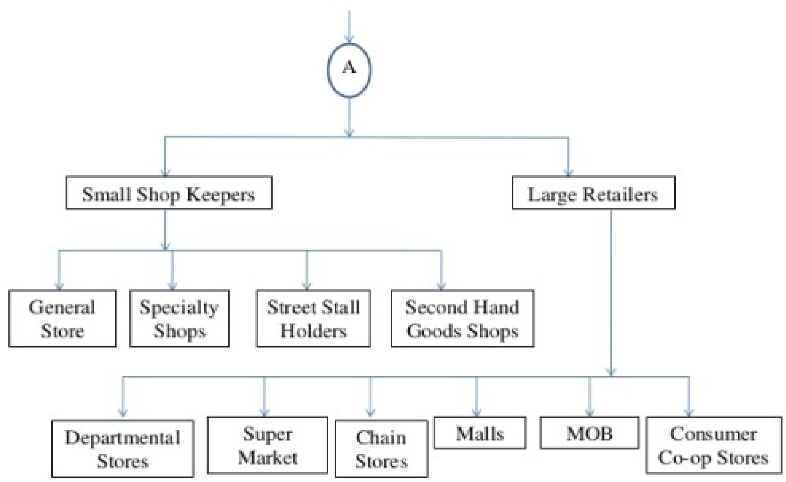
e. Hypermarket

f. Mail order business

g. Retail Cooperative Society

h. Franchising

i. Discount Houses



Exercises

1. What is trade?

2. Define retail trade.

3. The retailer is the ______ link in the chain of distribution. (a) first (b) second (c) third (d) final

4. Explain the different classes retail trade.

5. Highlight the difference between retail trade and other kinds of trade.

Week 2

Topic – Characteristics, advantages and disadvantages of each type of small -scale retailing

Content-

1. Characteristics, advantages and disadvantages of each type of small -scale retailing
2. Merits and demerits of small-scale retailing

Characteristics, advantages and disadvantages of each type of small -scale retailing

1) **Hawking/Itinerant**

Hawking is a form of trade in which the merchant or seller move his goods from one place to another.

CHARACTERISTICS OF HAWKING RETAIL

i) It is a small scale retail business.

ii) It provides door –to-door selling.

iii) They do not pay rent.

iv) It involves the movement of goods from one place to another.

v) It requires small capital.

ADVANTAGES OF HAWKING RETAIL

i) Small amount of capital is required

ii) It provides opportunity for self employment.

iii) It can reach many people.

iv) It is a form of advertisement.

DISADVANTAGES OF HAWKING RETAIL

i) Hawkers are exposed to dangers.

ii) Limitation to the quantity of goods than can be carried about.

iii) Young hawkers are exposed to bad influence.

iv) It can disturb the free flow of traffic.

2) MOBILE SHOP

Mobile shop is those whose goods are arranged in a motor van and are moved from one place to another to reach the final consumers.

CHARACTERISTICS OF MOBILE SHOP

i) They move from one place to another.

ii) Different advertising technologies are used to create awareness like jingles.

iii) Operation can be affected by weather: The operation of mobile shop can be affected by extremes of rain or hot weather which might prevent sales of goods.

iv) Display of goods: Mobile shops do display the goods inside the motor van in a well arranged pattern.

v) They can reach many customers: They can reach many customers because of their mobility.

ADVANTAGES OF MOBILE SHOP

i) **It stores variety of goods:** Mobile shop can stock variety of goods which are in popular demand by customers.

ii) **It can seek customers anywhere:** Owners of mobile shop can seek for customers wherever they can be found, either in the cities or villages.

iii) **Inability to return goods:** Goods once sold to the consumers cannot be easily returned since mobile shop are always on the move.

iv) **Increase in sales:** Mobile shop operators can increase their sales because of their ability to reach many customers.

v) **It operates low prices:** Mobile shop because it deals on a range of goods is able to sell at low prices to customers.

DISADVANTAGES OF MOBILE SHOP

i) **Motor van can break down:** A breakdown in a vehicle might be end of the day business to the mobile van vendors.

ii) **Irregular supply of goods:** Due to the continuous movement of the mobile shops, supply of goods is always irregular.

iii) **High cost of Maintenance:** High cost of maintaining the motor vans can cripple ghe whole business.

iv) **Exposure to thieves:** Cash from sales may be lost to thieves during the periods of their sales operation.

STREET/ROAD SIDE TRADERS

The number of such retailers is on the increase. Even in smaller cities we come across such retailers with their wares spread over a carpet just on the roadside, particularly near picture halls, bus stops, railway stations etc.

CHARACTERISTICS OF STREET/ROAD SIDE TRADING

i) **Operation is from a roadside:** Road side trading is usually operated from one point. In other words, it does not move about.

ii) **Stock varieties of goods:** Varieties or different types of goods are usually stock in the shop.

iii) **Found in busy roads:** Road side trading are normally located or found in busy roads both in rural and urban centres.

iv) **Display wares in stalls:** They display their goods or wares on structures in form of stalls.

iv) **Operate low prices:** In roadside trading, the prices of goods are very low.

ADVANTAGES OF STREET/ROADSIDE TRADING

i) **It stocks variety of goods:** Roadside trading usually stock varieties of goods for easily accessibility of consumers.

ii) Low prices of goods: Consumers can easily buy goods since the prices are generally low.

iii) It requires small amount of capital: Roadside trading requires small amount of capital to set up.

iv) Accessibility to travellers: In roadside trading, goods are easily accessible to travellers either within or outside the town.

DISADVANTAGES OF STREET/ROADSIDE TRADING'

i) **Goods are in limited quantity:** Most of the goods stocked are limited because the operation is in small scale.

ii) **High Cost of Rentage:** The cost of rentage for the roadside trading may be high and this can reduce the profit margin of the trader.

iii) **Goods may be wasted:** Most goods stocked may not be easily sold as many may either expired or wasted due to low patronage.

MARKET TRADING

Stall holding is another method of retail trade in Africa. Sheds and stalls are constructed in the market or particular location to transact business.

CHARACTERISTICS OF STALLS/MARKET TRADER

i) They have stalls in market places.

ii) The sellers/traders are grouped according to the type of goods sold.

iii) They open at specific hours.

ADVANTAGES OF MARKET TRADER

i) Stock wide variety of good: A wide variety of goods are stocked by market traders.

ii) Saving of Time: The market saves time for consumers since they do not need to move from one market place to another.

iii) Competition among traders: In market trading, there are many dealers for each item, giving rise to competition and reduces the chances of any buyer paying arbitrary prices.

iv) Low prices: Goods are cheaper at market trading due to competition and most of the traders are wholesalers.

v) Attraction to customers: Market trading attracts customers from both far and near places as a result of availability and low prices of goods.

DISADVANTAGES OF MARKET TRADER

i) Problems of distance: Some market places could be far from some traders e.g. Onitsha, Ariara internatioal markets.

ii) Exposure to thieves: Most traders that are coming to market places may be attacked by thieves leading to them being dispossessed of their cash or goods.

UNIT STORES/TIED SHOPS

Stores are retail outlets which operate in the rural or urban centres. They stock wide range of goods and are located in rented places or residence of the trader.

CHARACTERISTICS OF UNIT STORES/TIED SHOPS

i) They are owned by manufacturers.

ii) They are confined to a single line of commodity.

iii) Elimination of middlemen

iv) They enjoy financial assistance.

ADVANTAGES OF UNIT STORES/TIED SHOPS

i) Increase in profit.

ii) Elimination of middlemen.

iii) Rendering of after sales services.

iv) Meeting customer’s needs: Customers in this line of business can meet and discuss directly with the manufacturers in areas where their needs are required.

v) Direct contact with manufacturers.

DISADVANTAGES OF UNIT STORES/TIED SHOPS

i) Limited range of goods: Since specialised type of goods are supplied to tied shops, customers are denied of other variety of goods.

ii) High cost of operation: There is high cost of operation as the manufacture has to rent shops, hire motor vans and pay salaries to workers.

iii) It may lead to hoarding: Once there is scarcity of the products, the few tied shops may decide to hoard available goods thereby leading to scarcity and eventually high cost of the products.

4) Tie down of funds: If the goods are not patronised by customers it may lead to tie down of capital.

SMALL STORES

Small stores are located in front of residential houses of the retailers. They sell in much more smaller quantity and handle mostly small unit of convenience goods. They are mainly sole proprietors. It requires small capital to set up small stores.

KIOSKS

Kiosk is a small store located in front of residential or commercial or industrial areas where petty goods like bread, sweet, biscuit, etc are sold. They display these items inside the Kiosk or containers erected by the side of the road or foot path. This type of retail trading is common in both urban and in rural areas and they generally offer limited range of goods to customers. Very little capital is required to operate this business.

MERIT OF SMALL SCALE RETAIL TRADE

- It requires little capital
- It is near to the consumers
- It creates employment opportunities
- It requires low running cost
- Flexible trading period. A small scale retailer can operate 24/7
- No extra cost of advertisement is required

DEMERITS OF SMALL SCALE RETAIL TRADE

- It does not encourage expansion
- The profit in the business is usually low
- The retailers have no technical knowledge about the goods they sell
- They lack good capital to run the business

Exercises

1. Give five (5) examples of a small scale retail outlets.

2. State eight (8) features of hawking.

3. Describe 6 advantages of a mobile shop.

4. Write short notes on each of the following

(a) Unit stores

(b) Kiosk

(c) Market trader

(d) Roadside trading

5. Give four (4) benefits of itinerant trading.

Week 3

Topic- Characteristics, Advantages and Disadvantages of each type of Large Scale Retailer

CONTENT –

1. **Characteristics, Advantages and Disadvantages of each type of Large Scale Retailer**

LARGE SCALE RETAILING

Large scale retail trade has a large scale of operation; the retailers achieve their growth by increasing the physical size of their units to cater for more customers. Examples of large scale retail trade are:

CHAIN OR MULTIPLE STORES

This is a chain of similar shops with identical store design, layout and stock display.

CHARACTERISTICS OF CHAIN/MULTIPLE STORES

i. Under the same management and ownership these shops are operated at different places near the customers.

ii. All shops are decorated in the same manner to facilitate easy recognition by customers.

iii. Multiple shops deal with similar types of goods mostly of everyday use e.g., shoes, textiles, watches, automobile products, etc.

iv. The price is uniform in all the shops for similar items. The head office fixes the price. This practice avoids bargaining and cheating.

v. All multiple shops are controlled and managed from the head office.

vi. All multiple shops generally sell goods on cash basis. Credit facility is not available to the customers.

vii. The goods are purchased or produced at a central place and then supplied to different branches for sale.

ADVANTAGES OF CHAIN/MULTIPLE STORES

i. Easy identification: All multiples shops are often built alike. They have similar shop-front, display and decorations. This helps the customers to recognise the shops easily.

ii. Elimination of middlemen: Multiple shops are generally owned by big manufacturers. So the middlemen in the process of distribution, like wholesalers and retailers, are eliminated.

iii. Economies of large-scale: These shops enjoy the benefits of large-scale purchase or production of goods. Also, due to common advertisements these shops are able to save on the cost of advertising.

iv. Low Price: The customers can get the goods at a cheaper rate because of low operating cost and elimination of middlemen in the process of distribution.

v. No bad debts: All sales are strictly made on cash basis. Hence the question of loss due to bad debts does not arise.

vi. Public confidence: Standard quality and uniform price of the products helps in winning the confidence of customers. The customers get the genuine and standards goods directly from the manufacturer. The chances of duplication of goods and cheating do not arise in these shops.

vii. Convenient location: These shops are usually located in the main market and in busy shopping centres. So the customers can buy goods of their choice easily from these shops.

DISADVANTAGES OF CHAIN/MULTIPLE STORES

i. Limited choice: These shops deal in limited variety of products. So the choice of the customer is restricted to the brand of goods supplied by these shops.

ii. No credit facility: Since the sales are made on cash basis the customer cannot avail of credit facilities from these shops.

iii. No bargaining: The prices of the products are fixed by the head office. Individual shops have no control over it. So the customer cannot bargain with salesmen while buying the goods.

iv. Less initiative: These shops are generally managed by the branch managers and they follow strictly the instructions of the head office. Hence they generally do not take initiative and do not have any special interest in satisfying the customers.

DEPARTMENTAL STORES

A Departmental Store is a large-scale retail shop where a large variety of goods are sold in a single building. The entire building is divided into a number of departments or counters. In each department specific type of goods like stationery items, books, electronic goods, garments, jewellery etc. are available. All these departments are centrally controlled under one management. Once you enter such a store you can do all your shopping by moving from one department to another. To encourage people to do all their shopping in one store, these stores also provide facilities like restaurant, telephone, toilets, ATM etc. for the conveniences of customers.

CHARACTERISTICS OF DEPARTMENTAL STORES

i. It is generally located at the main commercial centres of the cities and towns, so that, customers from different localities can easily come to buy goods as per their convenience.

ii. The size of the store is very large and divided into many departments or counters.

iii. Each department deals with particular type of goods, say, one department sells electronic goods, another sells ready-made garments, a third keeps food items, and so on.

iv. The management and control of all departments is centralised.

v. The Departmental Store allows customers to enjoy shopping. It enables the customers to buy everything under one roof.

vi. Facilities such as restaurant, rest rooms, telephone, ATM (Automated Teller Machine), etc. are also made available to customers inside the store.

vii. It allows the customers to buy goods against a credit card.

viii. Customers may also avail of free home delivery facilities from these stores.

ADVANTAGES OF DEPARTMENTAL STORES

i. **Convenience of shopping:** Since a large variety of goods are sold under one roof, you need not move from one bazaar to another or from one shop to another to buy goods. It saves your time and effort. Also, for the convenience of the customers these stores provide toilet, restaurant, rest room and telephone service and ATM facility inside the store.

ii. **Wide choice of product:** A wide variety of products from different manufacturers are sold in these stores. Thus, a customer has a wide choice of goods from which he/ she can select the best, as needed.

iii. **Economies of large-scale purchase and sale:** A departmental store buys goods on large scale. So it can bypass wholesalers and gets the goods directly from the manufacturers. This way it enjoys the benefits of discounts from the manufacturers. Again, due to large volume of sale, the cost of operation is also low.

iv. **Mutual advertisement:** While visiting a departmental store customers are often attracted by goods displayed in different departments. Hence, there is a chance that the customers may buy goods other than those they originally had in mind. Thus, each department advertises for other departments.

v. **Efficient management:** Since these stores are organised on a large scale basis, they normally employ efficient and competent staff to provide best services to the customers.

DISADVANTAGES OF DEPARTMENTAL STORES

i. **Heavy Investment:** Since departmental stores require large space for storing varieties of goods, huge amount of capital is required to start and manage a departmental store.

ii. **Distance from residential areas:** The departmental stores are normally located in places far from the residential areas. Therefore, customers from far away localities find it inconvenient to buy goods from these stores. Again, to buy goods of daily use, people prefer going to small shop situated in their residential areas.

iii. **High cost of operation:** The cost of location (in the form of rent or purchase price of building), decoration of building, employment of large number of employees and provision of various facilities for the convenience of customers increases the operating cost of a departmental store.

iv. **High price:** High operating cost and better quality of goods leads to high price being charged for the goods in departmental stores.

v. **Lack of personal attention:** In departmental store there is no direct contact between the owner and the customers. It is the employees of the store who may interact with customers. The owners directly do not get information about the tastes and preference, likes and dislikes, etc. of their customers.

SUPER MARKET

The super market is a large-scale retail institution specialising in necessaries and convenience goods. They have huge premises and generally deal in food and non-food articles. In the words of M.M. ZIMMERMAN, "A super market is a departmentalised retail establishment having four basic departments viz. self-service grocery, meat produce, dairy products plus other household departments, doing a maximum business. It may be entirely owner-operated or have some of the departments leased out on a concession basis."

CHARACTERISTICS OF SUPER MARKETS

(i) They are located in the main shopping centres of an area with adequate parking facilities.

(ii) They function on cash-and-carry lines and offer no credit.

(iii) There are no selling counters or selling assistants to help the customers.

(iv) They stock a very wide range of food and non-food products, particularly meat products, dairy products, tinned food, bakery items, vegetables and other household products.

(v) They are large retail organisations and are a useful channel of distribution.

(vi) They have low sales overheads since no salesmen are employed.

(vii) The products stored in a super market are properly packed and placed on separate racks in order to facilitate purchasing by the buyer.

(viii) The buyer is completely at ease while buying as there is no undue sales pressure by counter salesmen.

(ix) They use mass displays of goods, have low prices and operate on self-service basis.

ADVANTAGES OF SUPER MARKET

(i) Large turnover because of the large variety of merchandise which is offered to the customers.

(ii) Low overheads, particularly selling overheads.

(iii) Low prices and high profits because of quick turnover.

(iv) Situated at convenient places and within reach of buyers.

(v) Avails economies of large scale operation.

(vi) The buyer is perfectly free as to what he should buy.

DISADVANTAGES OF SUPER MARKET

(i) A super market requires large and extensive premises for its operation.

(ii) Products requiring demonstration by salesmen cannot be stocked.

(iii) Customers are not allowed to have credit facilities in this type of small busniess.

(iv) Extra running cost will be incurred for trolleys and baskets.

(v) The nature of supermarket which allows self service and price tags lead to less personal attention given to customers.

(v) As a result of self service, goods in supermarkets are prone to high level of pilfery by customers.

HYPERMARKET

Hypermarkets are large supermarkets usually with a minimum of 25 checkout points with at least 50,000 square feet of selling space all on a single level. Hypermarkets offer a very wide range of products with self-service and free car parking lot. They are general merchandise warehouse retailers selling food items, drink, clothing and furniture. Goods are displayed in wire baskets, metal racks and wooden bins. Hypermarkets are usually situated outside the town nad are common in America and some European countries.

CHARACTERISTICS OF HYPER MARKET

i) **Bulk purchase:** Hypermarket do buy goods in bulk or large quantities from the manufacturer.

ii) **Locations are outskirt of town:** Hypermarket because of the large space they occupy are visually located at outskirt of town or city.

iii) **Uses self services:** The design and layout of hypermarket ensure the use of self service by customers.

iv) **Low prices of goods:** Hypermarket do purchase goods in bulk and this eventually results in lower prices of goods to customers.

v) **Require large spaces:** Large spaces for shopping, parking, etc are required by hypermarkets.

vi) **High level of operation:** Hypermarket, as a result of the large size are usually involve in hihj level of operation far higher than supermarkets.

ADVANTAGES OF HYPERMARKETS

i) **Wide variety of goods:** Hypermarkets do stock a v=wide variety of goods in their store.

ii) **Low prices of goods:** Hypermarkets= do purchase goods in bulk or in large quantities and this leads to lower prices of goods.

iii) **Uses self services:** The use of self service ensures smooth operation of hypermarket.

iv) **Convenience in Shopping:** Many facilities are provided in hypermarket and this makes shopping more convenient and interesting.

v) **Easy accessibility:** Hypermarkets are usually located on the outskirt of town as such facilities are provided to make accessibility possible.

DISADVANTAGES OF HYPERMARKET

i) **Reduction in sales:** Hypermarket may experience low sales as a result of its location i.e long distance from customers.

ii) **Less personal attention**: The nature of hypermarket which allows self service and price tags do lead to less personal attention given to customers.

iii) **Huge capital requirement:** A huge amount of capital is required to set up hypermarket business.

iv) **High cost of operation:** Extra running cost will be incurred in running hypermarket due to its large size and mode of operation.

MAIL ORDER

Mail Order also called shopping by post It is a method of selling goods by producers or traders directly to the customers through post office. The seller advertises the products through newspapers, magazines, television, booklets, catalogues etc. to make the customer aware about the product.

CHARACTERISTICS OF MAIL ORDER

i. The entire process is carried out through the postal system.

ii. Buying and selling takes place without any face-to-face contact between the buyer and the seller.

iii. Seller advertises the products giving detailed description of the goods, mode of payment, terms of sales, etc. in the newspapers, magazines, letters, catalogues, etc.

iv. Seller receives order from the buyer by post.

v. Seller sends the properly packed goods to the buyer through value payable post.

vi. The seller receives payment through post office.

vii. No middleman is involved in the process.

ADVANTAGES OF MAIL ORDER

i. The customers can easily purchase the goods while sitting at their place. It saves time and effort of the customers.

ii. Mail order business can be started with small amount of capital, as the businessman does not require to hold large stock of goods.

iii. Generally it assures the customers that they can get back their money if they are not satisfied with the product. This creates confidence in the minds of the customers.

iv. Mail order business is done on cash basis. There is practically no risk of bad debts.

v. It serves a wide market with a large number of customers.

DISADVANTAGES OF MAIL ORDER

i. Credit facility is not available to customers.

ii. This type of business is not suitable for illiterates.

iii. The buyers do not have any option to check the goods before making payment.

iv. The place of the buyer should be connected through postal services.

v. This system requires wide spread advertising.

DISCOUNT HOUSES

A discount house is a retailing business unit that features a large variety of products which they sell on a low price basis and operate on a low mark-up with minimum customer services. This system of retailing is very popular in America. They give discount by reducing their overhead cost and by buying in bulk. They are institutions that sell a wide variety of goods at less than traditional retail prices.

CHARACTERISTICS OF DISCOUNT HOUSES

i) **Offer low price:** Discount houses are known to offer low prices for goods offered to their customers.

ii) **Operate on discount basis:** Discount houses offer discount to customers on the goods they purchased.

iii) **Purchases are in cash basis:** The purchases in discount houses are made in cash.

iv) **Low mark-up:** There is low mark-up with minimum customer services.

v) **Wide varieties of goods:** Wide varieties of goods are stocked for sales.

FRANCHISING

Franchising is a type of retail operation in which a conditional right is given to the retailer to market the franchise (company's products or services) under the banner of the franchiser. The franchiser supplies the name, products, goodwill and general know-how and the franchisee provides the capital and enters into a contract to use the franchiser's services in a manner agreed upon.

ADVANTAGES OF FRANCHISING

i.) It requires relatively low capital to start.

ii) Management skills are taught.

iii) It gives exclusive selling rights for a specific geographical area.

VARIETY STORES

A variety store is one which handles a wide assortment of goods not necessarily related to each other. Examples are toys, cosmetics, hardware. A group of variety stores may constitute a chain.

CHARACTERISTICS OF VARIETY STORES

i) Wide range of unrelated goods: Wide range of unrelated goods are stocked for sale.

ii) Absence of credit: There is the absence of credit and delivery services.

iii) Limited direct advertising: There is limited direct advertising.

iv) Sited mainly in urban centres: They are mostly sited in major urban centres.

v) Counter service: Counter service and display are provided.

RETAIL CO-OPERATIVE SOCIETY

This is a large scale consumers' co-operative store, which sells a wide variety of products like food items, vegetables, fruits, groceries as well as durable consumer goods all under one roof. It is formed with the objective of selling goods of daily necessity to its members and also to the general public at a reasonable price by eliminating the middlemen in the process of distribution.

CHARACTERISTICS RETAIL CO-OPERATIVE SOCIETY

i. These stores are set up in the form of co-operative societies.

ii. These are centrally located and also establish their branches near the residential localities. Some retail co operative society have their mobile van, which is taken to the residential areas for sale of goods.

iii. It deals only in standard quality products.

iv. These stores are often run on self-service basis. You can pick up the goods of your choice from the open shelves and take them to the cash counter for making payment. In some retail co-operative society salesmen are also employed to assist the customer in the process of selection= of goods.

v. These stores are managed by elected members of the cooperative society.

vi. Retail co-operative society purchase goods in bulk from the manufacturers or government agencies and sell them to the members and general public at a reasonable margin of profit.

vii. In retail co-operative society goods are sold only on cash basis.

viii. The capital of retail co-operative society is provided by the members of cooperative society.

ADVANTAGES OF RETAIL CO-OPERATIVE SOCIETY

i. Variety of goods: Retail co-operative society deal with a wide range of goods of daily household need.

ii. Quality goods: It provides standard quality items to the customers. Chances of adulteration and duplication are not there.

iii. Low Price: Due to economies of large-scale purchase and avoidance of middlemen the goods are available at a cheaper price in retail co-operative society.

iv. Low operating cost: In a retail co-operative society normally services of salesmen and shop assistants are not available. This reduces the cost of operation.

v. Benefits to members: The members of the society get the goods at a concessional rate. In case of surplus or profits they also get dividend according to their share holding.

vi. Freedom of selection: A customer can find goods of different brands at one place. This makes comparison and selection easy. You can take your own time to select items of your choice.

Exercises

1. State six (6) distinguishing features of a mail order.

2. Give four (4) disadvantages of a mail order business.

3. List five (5) types of large scale retailers.

4. Explain five (5) advantages of chain stores.

5. State five (5) characteristics of Supermarkets.

Week 4

Topic– Modern Trends in Retailing

Content–

1. **Modern Trends in Retailing**
2. **Branding, Self-Service, After sales services, Vending machines, Pre-packaging and Credit Card**
3. **Characteristics, Advantages and Disadvantages of Branding, After sale services, vending machines etc**

Modern Trends in Retailing

New trends have been introduced in retailing business because of the dynamic nature of commercial activities. In order to enhance and facilitate business activities, new ideas and techniques have been introduced. These include:

i) Branding

ii) Self-service

iii) After sale services

iv) Vending machines

v) Pre-packaging

vi) Credit card

BRANDING

Branding is the act of attaching a trade name to a product so as to distinguish it from other products of other firms. A brand is the idea or image of a specific product or service that consumers connect with, by identifying the name, logo, slogan, or design of the company who owns the idea or image. Branding is when that idea or image is marketed so that it is recognizable by more and more people, and identified with a certain service or product when there are many other companies offering the same service or product. Branding as a modern trend in manufacturing is a prerequisite for product differentiation. It is used to prevent product adulteration.

ADVANTAGES OF BRANDING

i) Products can be differentiated.

ii) Market share can be created.

iii) Adds value to the product.

iv) Assists in handling of products.

v) Information about the product can be written.

vi) Attracts customers.

vii) Some packing can be reused.

viii) Advertisement can be done.

ix) Easy to handle. (Arrangement in self service retailing)

DISADVANTAGES OF BRANDING

i) Brands needs to be advertised and advertisement can be burden on resources.

ii) Sometimes branding increases competition and competition puts pressure on firms profit.

iii) Imitation brands reduce profit.

SELF-SERVICE

Self-service allows the customers to go round and select he products he wants without the help of shop attendants. On other words, self-service system is adopted by the retailers in order to encourage people in helping themselves rather than being served. The goods displayed with price tags for customers to move around and select their choices without assistance from the shop attendant. Baskets and trolleys are provided to ensure effectiveness. It can be found in large scale retailing like supermarkets, departmental stores, etc. The goods selected are checked and paid for on leaving the shop. Self-service as a trend in retailing is enhanced by appropriate packaging and display.

ADVANTAGES OF SELF-SERVICE

i) Better image.

ii) More revenue with more sales.

iii) Customers have impulse to buy.

iv) Customer Convenience.

v.) Gives customers freedom of choice

vi.) Support is provided for the customers

vii.) Spare parts are available.

viii) Warranty.

DISADVANTAGES OF SELF-SERVICE

i) Requires a lot of capital.

ii) Management problems.

iii) Parts repaired in warranty are a loss to the business.

iv) Warranty is added to the cost from customers.

v) Warranty is available only for limiter period.

vi) Less personal attention to customers.

AFTER-SALES SERVICES

After-sales service refers to the service provided to customers in the form of home delivery, installation and maintenance of products purchased from the shop. In other words, after-sales services are extra services which retailers render to their customers after purchasing their products in order to ensure constant patronage. The service is sometimes made available to a customer after he has purchased a product. After-sales services is an essential component of modern marketing methods. This may include replacement, maintenance and repairs of faulty parts.

ADVANTAGES OF AFTER-SALES SERVICES

To Retailers

i) Better image.

ii) More revenue with more sales.

To Customers

i) Support.

ii) Spare parts are available.
iii) Warranty.

DISADVANTAGES OF AFTER-SALES SERVICES

To Retailers

i) Capital requirement.

ii) Management problems.

iii) Parts repaired in warranty are a loss to the business.

To Customers

i) Warranty is added to the cost from customers.

ii) Warranty is available only for limiter period.

PRE-PACKAGING

Pre-packaging is a system whereby goods are packed, wrapped, or put inside containers, weighed and priced before they are arranged on the shelves in a store. In other words, it is a technique where by retailers sell goods already weighed, measured and packaged by manufacturers.

Packaging

Packaging is defined as the act of introducing good container for a product so as to make it look attractive. It is also for protecting the product and aids its handling.

ADVANTAGES OF PRE-PACKAGING

i) Easy Identification of product: Pre-packaging ensures the easy identification of products or goods by customers.

ii) Relieve of burden: Since pre-packaging is done by the manufacturers, the middlemen are relived of the burden of packaging.

iii) It ensures quality of goods: Pre-packaging helps to ensure that retailers do not tamper with the quality of the goods.

iv) Facilitates self-service: Since the packaged goods are standardised, self-service retailing is facilitated.

v) Means of advertisement: The goods advertise themselves anywhere they are displayed because they can easily catch the attention of the customers.

DISADVANTAGES OF PRE-PACKAGING

i) It is expensive: Pre-packaging is expensive and the cost of packaging is usually passed on to the customers.

ii) Prevents actual inspection of goods: Pre-packaging prevents actual inspection of goods by the buyers.

iii) Increase in price: The cost of the containers, cans, wrappers, etc are added to the actual price and this makes the price to go higher.

iv) False information: Buyers at times may be compelled to rely on the information stated on the package and such information may be deceitful or misleading.

v) Environmental Pollution: End users of pre-packages goods often litter the streets with wrappers and empty containers and this tends to make the environment untidy and dirty.

CREDIT CARDS

Credit card is one of the modern rends in retail trading.It is a system which involves the use of plastic cards to purchase goods and services on credit from specified sellers up to a specific amount and payment of such goods and services are later paid for. One of the major features of credit card is that it eliminates the danger involved in carrying large sums of money in cash from one place to another. With credit cards, the rate of armed robbery whether personal or banks will be drastically reduced. The use of credit cards in modern days now leads to cashless economy.

ADVANTAGES OF CREDIT CARDS

i) Promotes credits purchases: Credit cards helps the customers to purchase goods on credit which they could not afford to buy with cash.

ii) Ease of Handling: Credit cards by their nature are small in size but with high quality which can easily be carried from one place to another.

iii) Increase in profit: Since credit cards involves sales in credit, this odes lead to increase in sales which results to increase in profit.

iv) It eliminates carrying of cash: Credit cards do eliminate the carrying of huge amount of cash from one place to another.

v) Reduction in armed robberies: The rate of crime such as armed robberies in individuals or banks is highly reduced as customers buy goods with the use of credit cards.

DISADVANTAGES OF CREDIT CARDS

i) No room for bargaining: Since the prices of goods are fixed, customers may not be able to bargain for such goods.

ii) Inability to recover debts: Credit cards involve the buying of goods on credits, shop owners may face the problem of bad debts.

3) Increase in price of goods: Goods and services sold with credit cards are usually associated with high prices.

iv) It can be faked: Credit cards at times may be faked and this can affect the operation of the business.

VENDING MACHINE

Vending machine is a sales outlet that automatically dispenses pre-packed items such as drinks stored in it whenever the appropriate value coin is inserted. In other words, vending machine involves the sale of goods to ultimate customers through coin-operated machines. They are located in areas where large number of people congregate such as offices, schools and sport arena.

ADVANTAGES OF VENDING MACHINE

To Retailers

i) Requires minimum space so rental cost is low.

ii) 24 hours sale.

iii) No sale staff required.

To Customers

i) Adds convenience.

ii) Available all the time.

iii) Self service. Less time required.

DISADVANTAGES OF VENDING MACHINES

To Retailers

i) Available only for the sale of limited range of products.

ii) High capital cost.

iii) Requires maintenance.

iv) Total loss of sales when out of order or out of stock.

v) Machine can easily be broken and money inside can be stolen.

To Customers

i) Only limited range of products are available.

ii) Inconvenience if machine out or order.

Exercises

1. State five (5) trends in modern retailing.

2. What is branding?

3. Mention the advantages of self service.

4. Describe the importance of credit card to modern retailing in Nigeria.

5. Give six (6) examples of after sales service.

WEEK 5

TOPIC: Wholesale Trade

CONTENT– Wholesale Trade

Types of Wholesalers

Functions of the Wholesaler to the Manufacturer and Retailer

Wholesaling is the means of buying goods in bulk from the producer and selling in small quantities to the retailer. Those who engage in these business activities are known as the wholesalers.

Wholesaler is a person who buys goods in large quantity or in bulk from the manufactures/ producer and sell in small quantity to the retailers

Wholesale trade is one component of business sales and inventories. Only those firms which sell to governments, institutions and other businesses are considered part of wholesale trade.

Types of Wholesalers. Wholesalers can be classified into two broad categories; namely:

- **MERCHANT WHOLESALER:** The merchant wholesalers buy and re-sell goods on their own account taking title to the products they handle and convey the title directly to those they deal with. They get their profit from the marginal differences between purchase and selling price.

Functions of Merchant Wholesalers

1. They provide delivery service
2. They undertake the storage of goods

- They provide promotional service

1. They provide advisory service
2. They arrange credit terms.

Types of Merchant Wholesalers

1. specialist wholesalers
2. Cash and carry wholesalers
3. General wholesalers

4. Rack jobbers
5. Truck wholesaler

- **AGENT MIDDLEMEN :**

Top of Form

Bottom of Form

There term middle man included all those who operates between producer and consumers. They function in buying and selling if the commodity. The wholesalers and retailers are middleman dealing in the ordinary function of buying and selling. There are other such as brokers. Commission agents, dealers and merchants who assist the buyers ans sellers in the market.

KINDS OF MIDDLEMEN

Some of the middle men are explained as follow

1. **BROKER**
   A broker is an agent involved to buying and selling on behalf of principal for a commission. He does not hold any stock nor deals with his own name. his function is only to negotiate and make contract of sales and purchases on behalf of others. He is paid for his labour called as brokerage. There are different classes of brokers. They are produce broker, stock broker, insurance broker and ship broker.

2. **FACTOR**
   He is an agent whose function is to receive goods from his principal for sale in commission. He can sell goods in his own name, pledge goods in his own possession receive payments and gives receipts. He is liable on contract of sale he enters into on behalf of his principal. A factor is also called a consignment broker.

3. **COMMISSION AGENT**
   He acts on behalf of foreign importer. His function is to buy goods on behalf of client abroad and to dispatch them in accordance with the instructions. He receives a commission for his service.

4. **UNDERWRITER**
   They enter into agreement with promoters of newly started company which have not been taken up by the public. For this guarantee they are paid commission known as underwritten commission.

5. **DEL CREDERE AGENT**
   He is an agent who in consideration for extra remuneration called del credere commission. Guarantees to his principal that the third person with whom he enters into contracts shall perform their obligation. Thus such an agent guarantees to his

principal that he will only sell to person who will pay for what they buy and if the buyer does not pay, he will pay.

6. **TRAVELLING AGENT**
   Sometimes wholesalers appoints number of agents who goes from place to place , show catalogues, price lists etc. to retailers , book orders and forward them to their principals who executes them. They receive their commission in return of their service.

7. **SELLING AGENT**
   Sometimes wholesalers and manufactures appoints certain shop-keepers in different parts of the country as their selling agents. These agents receive commission on all sales in addition to the expenses which they have incurred on behalf of principal.

8. **AUCTIONEERS**
   An auctioneer is an agent who sells goods by auction ie to the highest bidder in public competition. He has no authority to hold the goods sold and can deliver the goods only on receipt of price. He is the agent of the vender.

9. **FORWARDING AGENT**

This is the type of agent who is engaged in forwarding the goods to there destination on certain charges.

1. CLEARING AGENT
   This agent is involved in clearing the imports on behalf of their principal. The duties include taking the delivery of the goods from the ship and attending to custom formalities for certain commission.

DISTINCTION BETWEEN FACTOR AND BROKER

Factor
1. He has the possession of goods or documents which entitle him to the possession.
2. He carries out the trade with his name.
3. He is himself liable in respect of the contract of sale.
4. He receives payment from the customer and gives him discharge.
5. He has lion in respect on goods in respect of his commission. Broker

Broker
1. He has no possession of the goods which he sells.
2. He brings together both the parties to a transaction. The sale is made in the name of the principal.
3. He is not liable in respect of such contracts.
4. He does not receive payment of the value of the goods from the customer and cannot give his discharge.
5. He has lien on good

Functions of the wholesalers to the manufacture and retailer

1. **Price stability**

The wholesalers help to prevent price fluctuation by stocking the goods until they are needed

1. **ii) Storing or Warehousing**

Closely related to the assembling function is the function of storing or holding stocks. It has been seen that there is a time gap between the production and the consumption. Neither the production nor the consumption of goods takes place in an uninterrupted flow. Therefore, to avoid periodic shortages, goods must be held in reserve.

iii) Transporting

Wholesalers purchase in bulk from manufacturers and transport these goods to their own warehouses. Also, they make arrangements for the transportation of goods from their warehouses to the retailers' shops.

1. **iv) Financing**

Retailer, who is in need of financial assistance, is granted by the wholesaler a fairly generous term of credit. Manufacturer too generally wishes to avoid getting his capital locked-up in finished goods, book debts etc. Wholesaler takes delivery of goods and asks for a relatively short period of credit from the manufacturers. Further, a great deal of financial burden of holding stocks is carried by the wholesaler, who stores finished goods of manufacturers in his own warehouse. Thus, manufacturer is relived of the financial burden of carrying stock.

1. **v) Risk-bearing**

Risk is involved whenever goods are owned. The wholesaler assumes the risk of loss likely to arise from the fall in the price of goods. The risks of damage, deterioration in quality, spoilage, pilferage, theft or loss by fire of goods kept in the warehouse are also borne by the wholesaler.

1. **vi) Grading, Packing and Packaging**

Wholesalers sort out products of different grades according to the quality, size, shape, moisture contents etc. They also break open the packed cases, break them into smaller lots and repack them for delivery to retailers.

vii) Providing Market Information

Wholesalers provide information to the retailers about the goods, which are available in the market. Also, they collect information from the retailers about the changes in the tastes, fashions, buying habits of the consumers, etc., and then pass them on to the manufacturers.

viii) Dispersing and Selling

The goods assembled by the wholesalers are kept by them in stock only to be distributed among the retailers who are often scattered over a large area. Whenever retailers find their stocks depleted they buy goods in smaller quantities from these wholesalers to replenish their stocks. Thus, wholesalers help in the dispersion process of marketing.

ix Credit facilities

The wholesalers can get credit facilities to the manufacturers by paying in advance for the products they want to buy and as well render credit facilities to the retailer by selling for them on credit and allowing them to pay later for the products.

Test and Exercise

1. A person who buys good in large quantity and sell in small quantity to the retailer is (a) retailer (b) producer (c) wholesaler (d) manufacturer. ans (c)

2. All of the following are functions of the wholesaler to the retailer and manufacturer except (a) they give credit facilities (b) they advice the retailer and the manufacture (c) they render the retailer and the manufacturer dormant (d) they help to stabilize price. ans (c)

3. Another name for a 'factor' is called (a) consignment broker (b) ordinary broker (c) agent (d) none of the above. ans (a)

4. A middleman who engages in forwarding their goods to their destination at a certain amount (a) broker (b) factor (c) auctioneer (d) forwarding agent.

5. All are functions of merchant wholesalers except (a) they arrange credit terms (b) They do not provide advice service (c) they provide delivery services (d) they undertake the storage of goods. ans (b)

Week 6

TOPIC: Arguments for and against elimination and survival of wholesalers channel of distribution

Contents:

1. **Arguments for and against elimination and survival of wholesalers channel of distribution**
2. **Factors for the choice of wholesalers channel of distribution**

ARGUMENTS IN FAVOUR OF ELIMINATION OF WHOLESALERS

1. Wholesalers are middlemen between the manufacturers and the retailers. They increase the cost of marketing and price of the products goes up. The consumers have to pay higher price. By eliminating wholesalers, prices of the products will decrease and the consumer shall benefit. The manufacturers will be earning more profit on account of lesser prices of the products.

2. Wholesalers are unnecessary links between the manufacturers and retailers. Their presence in the distribution channel obstructs the smooth and quick delivery of goods from the manufacturers to the ultimate consumers. If they are eliminated, unrestricted supply of goods takes place from the manufacturers to the retailers and the consumers.

3. During the slack seasons and scarcity in business activities demand, the wholesalers resort to hoarding and stocking of goods and sell them at exorbitant prices charging excessive profits.

4. In certain regions, the wholesaler is the sole distributor of the product. He occupies monopolistic position and exploits both the retailers and the consumers by charging higher prices, if the wholesalers are eliminated it would be in the best interest of both the retailers and the consumers.

5. Big and established retailers such as large departmental stores can afford to make their own purchases directly from the manufacturers without approaching the wholesaler. The wholesalers are easily eliminated.

6. On account of developed means of transportation, the retailers can easily purchase goods directly from the manufacturers without the services of wholesalers.

7. Now-a-days, the manufacturers have started opening their own shops for the distribution of their products. They are establishing direct link with the consumers. The services of the wholesalers can be easily dispensed with.

8. The co-operative movement is gaining immense popularity these days in India. Various co-operative stores and super markets are operating for selling goods to the consumers. They procure their supplies directly from the manufacturers. The presence of the wholesalers is superfluous in the chain of distribution.

9. In order to earn more profits, the wholesalers may take over the products of the manufacturer's competitors. The manufacturer concerned may face the sudden decline in the sales of his products.

ARGUMENTS AGAINST THE ELIMINATION OF WHOLESALERS

1. Vital link:

Wholesalers constitute an important link in the distribution chain of goods. They perform numerous functions and render useful services to ensure smooth flow of goods from producers to consumers.

2. Specialisation:

Wholesalers operate on a large scale and possess the specialised knowledge in goods. They relieve the manufacturers of innumerable duties which they find expensive and difficult to perform. Manufacturers can concentrate on production.

3. Wider distribution:

Most of the goods are produced by a large number of small producers. Retailers are usually small and scattered widely at different places. Wholesalers are indispensable for country-wide distribution of goods produced at numerous places.

4. Price stabilization:

Wholesalers maintain regular supply of goods at all times. They help to stabilise the prices in the face of temporary fluctuations in demand. They also inform the manufacturers about the changes in the pattern of demand.

5. Economies of large scale:

Wholesalers buy goods in huge quantities. They enable the producers to secure the benefits of large scale production. The benefits of lower costs of production ultimately pass on to consumers.

6. Market information:

Wholesalers collect information about changes in market demand and competition from retailers and pass on the information to producers. As a result producers can plan production in accordance with the needs of consumers.

7. Warehousing:

Wholesalers relieve both manufacturers and retailers from the trouble of maintaining huge stocks of goods.

8. Financing:

Wholesalers provide financial support to both producers and retailers.

9. Assumption of risk:

Wholesalers assume the risks arising from changes in demand, spoilage or damage of goods, etc.

10. Advice to retailers:

Wholesalers, provide advice to retailers regarding quality, prices, availability and timing of purchase of goods. They also provide information about new products.

11. Generation of Employment:

Wholesalers help to generate employment opportunities by encouraging the growth of small scale retailers. Retailers in turn provide employment to a large lumber of beeps.

12. Economic Growth:

Wholesaler's enable producers 10 invest money in expansion and growth of output by buying goods in bulk on cash basis. They also help in the growth of exports.

Organisation of Wholesale Trade

A wholesaler has to maintain large stocks of goods. He requires big and updates warehouses. Moreover, he often has to buy goods in cash and sell them at credit to retailers.

He has also to employ travelling salesmen who visit various retailers and book orders. He also has to maintain motor vans to provide home delivery to retailers.

Therefore, wholesale trade is generally carried on by a joint stock company. A large wholesale firm may be organised as follows

1. Purchase department:

This department buys goods in bulk from different manufacturers. Before buying goods, samples of products, catalogues and quotations are obtained from manufacturers.

After comparing the quality and prices and terms and conditions of sale, most favourable suppliers are selected. Orders are placed with the selected suppliers keeping in view market demand.

Goods ordered from different suppliers are collected or assembled at one place. Purchase manager is the head of this department. Buying experts and clerks are employed to work under the purchase manager.

2. Storage department:

This department receives goods from producers. Goods are compared with the orders and invoices. Any discrepancy or damage is reported and settled with the suppliers. After receipts, proper arrangements are made for storage of goods.

During storage, grading, packing and branding activities are performed wherever necessary. Stocks are kept under control to avoid shortage and surplus. Goods are dispatched to retailers according to the instruction of sales department.

3. Sales department:

This department conducts marketing research to ascertain the nature and extent of market demand. This information is passed on to the purchase department.

Advertising and sales promotion activities are undertaken to increase and sustain demand. Sales representatives of the wholesaler visit retailers, show samples and book orders. Necessary instructions are issued to the storage department for dispatch of goods.

4. Administrative department:

This department is concerned with receipt of cash from retailers and payment of cash to manufacturers. It also keeps accounts, records and files concerning all the transactions of the firm.

It handles correspondence work of the business. Administrative department also looks after recruitment, training, compensation, and welfare of the staff employed in the firm.

FACTORS AFFECTING CHOICE OF DISTRIBUTION CHANNEL

Distribution is an activity that involves effecting the flow of goods and services from the point of production to the end users or consumers. It is the means or process whereby goods and services moves from the production point to the consuming point. The main importance of distribution is to help overcome the timeframe and place difference that separate goods and services from those who are in need of them.

Channel of distribution is the means by which goods and services are made available to consumers in the market. It is an organized system of agencies and institutions, which in combination performs all the activities required to link producers with consumers in order to accomplish the desired marketing task.

TYPES OF DISTRIBUTION CHANNEL

There are two main types of channel system which are;

1) Conventional Marketing System – This comprises of an independent producer, wholesaler, and retailer. Each is a separate business entity seeking to maximize its own profit. It is more or less a highly fragmented network in which loosely aligned manufacturers, wholesalers, and retailers have bargained and negotiated over terms of sale

2) Vertical Marketing System – This is a type of distribution channel where coordination is achieved because the producer, wholesaler and retailer act as a unified system. Anyone member owns the others, and no single member can dominate the system. It is also efficient in controlling channel behaviour and eliminating the conflicts that result when independent channel members pursue their own objectives.

FORMS OF DISTRIBUTION CHANNEL

Either of the above types mentioned above can take any of these form.

There are three forms of distribution channel which are;

I. Direct Channel – This is when producers decide to sell directly to consumers. It is mostly common in sale of industrial and perishable consumer goods. It is a zero level method. That is, Manufacturer – Consumer. This form is mainly based on services. E.g Haidresser, Doctor etc. There is no intervention of middlemen in this form of distribution channel.

II. Indirect Channel – This involves the intervention of the middlemen to effect the movement of goods to the final consumers. It is a one level method. That is, Manufacturer – Retailer – Consumer.

III. Multi-Channel – This is using one or more channel system to reach the market. It is a two level method. That is, Manufacturer – Wholesaler – Retailer – Consumer.

Factors Affecting Choice of Distribution Channel

The choice of channel is based on the analysis of the consumer, the type of firm, characteristics of the product, and consideration of the environment of the firm.

1. Market Consideration: These following analysis should be done at the market level:

I. Consumer or industrial market

II. Number of potential consumers

III. Geographical concentration of the market

IV. Order size

2. Product Consideration: A thorough analysis of the product features should be done as this affects the choice of channel. These includes:

I. Unit Volume

II. Bulk and weights

III. Perish ability

IV. Extent of the product line

3. Company Consideration: Company's reputation, resources, experience and desire for control of channel are important factors that can affect the choice of channel. For example, companies with adequate financial and non-financial resources will be less compelled to utilize middlemen.

4. Middlemen Consideration: Under this, we consider the type of service rendered by middlemen, availability of desired middlemen, and sales volume opportunities.

5. Environmental Consideration: The environmental factors to consider include economy, technology, legal, competition etc. In most cases, when economic conditions are depressed, producers turn to the shortest and cheapest channel.

Exercises

1. State three (3) arguments in favour of eliminating the wholesaler.

2. Give four (reasons) why middlemen should be retained.

3. What are the factors affecting choice of distribution channel?

4. Explain the channel of distribution.

5. Describe three (3) roles of wholesaler in the channel of distribution.

Week 7:

Foreign Trade

Contents:

MEANING OF FOREIGN TRADE

Foreign trade is also known as international trade, it is defined as exchange of goods and services between two or more countries.

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Generally no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside.

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

According to Wasserman and Haltman, “International trade consists of transaction between residents of different countries”.

According to Anatol Marad, “International trade is a trade between nations”.

According to Eugeworth, “International trade means trade between nations”.

Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is in principle not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade.

The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture. International trade consists of ‘export trade’ and ‘import trade’. Export involves sale of goods and services to other countries. Import consists of purchases from other countries.

International or Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results into. Outflow and inflow of foreign exchange. Thus it is also called EXIM Trade.

For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation.

Types of Foreign Trade

The Types of Foreign Trade are:

1. **Bilateral trade:** This is a trade agreement in which two countries exchange goods and services e.g trade between Nigeria and Ghana.
2. **Multilateral trade:** This is the type of international trade where a country trade with two or more countries e.g when Nigeria trades with Ghana, USA, Russia and Togo.

Division of Foreign Trade

1. **Import Trade**: Import trade refers to purchase of goods by one country from another country or inflow of goods and services from foreign country to home country. Import trades are sub divided into visible imports or invisible imports. Visible imports are goods that can be seen or touched while invisible imports are services that cannot be seen or touched.

2. **Export Trade**: Export trade refers to the sale of goods by one country to another country or outflow of goods from home country to foreign country. This is also divided into visible and invisible; visible export are goods which are sold to other countries like palm oil, cocoa, crude oil ,cotton etc. while invisible are services rendered to other countries e.g. insurance, banking tourism etc.

3. **Entrepot Trade**: Entrepot trade is also known as Re-export. It refers to purchase of goods from one country and then selling them to another country after some processing operations.

Reasons for International Trade

1. Uneven distribution of natural resources: There is a long list of reasons that countries may want to engage in trade with one another. To begin with, a country may not have the raw materials that are necessary to produce certain types of goods. Yet those goods may be essential to the lives of a nation's populace. This makes it necessary for the nation in need to acquire those raw materials from the sources that possess them. On the contrary, those nations that possess these raw materials may have few other sources of revenue. An issue often faced in third-world countries is that they are resource-rich yet economically poor.

2. Expansion of market for products: Foreign trade is necessary as it helps to widen the market for goods produced.

3. Difference in taste: the need to change the taste of what a country have been consuming and due to difference in taste , international trade is then important. Other reasons are

4. Difference in technology

5. Difference in skills

6. Difference in climatic condition

7. Desire to improve the standard of living

8. Difference in efficient use of natural resources

Barriers to International Trade

1. Difference in currency

2. Difference in culture and beliefs

3. Difference in language

4. Distance

5. Political instability
6. Problem of documentation
7. Transportation and communication
8. Government policy
9. Difference in legal system/ emigration laws
10. difference in weights and measurement

Exercise

1. One of the major barrier to international trade are these except (a) distance (b) communication (c) transportation (d) personality, ans (d)
2. Entre-port means (a) selling goods and services to other countries (b) re-exporting of goods from other countries (c) buying goods and services from other countries (d) buying and selling of goods from different countries. ans (b)
3. Types of foreign trade are (a) import and export (b) entre-port and export (c) bilateral and multilateral (d) none of the above. ans (c)
4. The selling of goods that can be seen and touch is (a) visible export (b) invisible export (c) visible import (d) invisible import.ans (a)
5. The buying of goods that can be seen and touched is (a) visible export (b) invisible export (c) visible import (d) invisible import. ans (c)

Week 8

Foreign Trade II

Contents:

1. **Visible and Invisible Trade**
2. **Terms of Trade Comparison**
3. **Concepts in Foreign Trade**
4. **Invisible Exports and visible and Invisible Import as expressed in Price**

VISIBLE TRADE

Visible trade involves trading of goods which can be touched and weighed. Examples include trade in goods such as Oil, machinery, food, clothes etc.

Visible Trade consists of

- Visible exports: Selling of tangible goods which can be touched and weighed to other countries.
- Visible imports: Buying of tangible goods which can be touched and weighed from other countries.

INVISIBLE TRADE

Invisible trade involves the import and export of services rather than goods. Example include services such as insurance, banking, tourism, education.

If a Ghanaian student comes to Nigeria to study, it would be invisible export for Nigeria as it is earning foreign exchange by providing educational services.

If a Nigerian citizen travels to Ghana for a holiday. It will be invisible import for Nigeria and invisible export for Ghana.

TERMS OF TRADE COMPARISON

Terms of trade (TOT) refer to the relationship between how much money a country pays for its imports and how much it brings in from exports. When the price of a country's exports increases over the price of its imports, economists say that the terms of trade has moved in a positive direction. The TOT is expressed as a ratio of import prices to export prices; that is, the amount of imported products/commodities that an economy can purchase, per unit of exported products/commodities. Any improvement that occurs in a country's TOT is beneficial to the economy because it means that the country can purchase more imports for the particular level of exports.

For example, in a bilateral trading arrangement, the trade agreement occurs between two countries. Let's suppose that agricultural products are grown in Ogun, Nigeria, while biological fuels are produced in USA. The price that USA charges for its exports of biological fuels is $24,000,000.00 a year, and it pays Nigeria $19,000,000.00 for the produce it imports. At the end of the year, USA would have exported $5,000,000.00 ($24,000,000.00 – $19,000,000.00) more than it has imported.

The Formula
The formula below is used to calculate an economy's TOT:

Terms of Trade (TOT) = Index of Export Prices/ Index of Import Prices X 100

The indices are the average of the change in price from one period to the next, expressed as a percentage. Now let's use a real-life example to see how the formula works.

In 2012, the island of Madagascar had an index of export prices of 15% (115) over the previous year and an index of import prices of 7% (107) over the previous year.

Madagascar's TOT = 115 / 107 X 100 = 107.5

The results show an improvement of 7.5% in the TOT. TOTs in excess of 100 are said to be improving, while TOTs below 100 are said to be deteriorating.

CONCEPTS IN FOREIGN TRADE

FREE TRADE
Free trade is the economic policy of not discriminating against imports from and exports to foreign countries. Buyers and sellers from separate ountries may voluntarily trade without the domestic government applying tariffs, quotas, subsidies or prohibitions on their goods and services. Free trade is the opposite of trade protectionism or economic isolationism.

INFANT INDUSTRIES
These are newly established industries. They are still in their tutelage and must be protected from foreign competition, to safeguard their survival.

DEVALUATION
Devaluation is lowering of the exchange value of a country's currency vis-a-vis other currencies. This makes import to be expensive and export to be more attractive.

DEPRECIATION
This refers to the fall in the value of a country's currency against other currencies as a result of the interplay of the forces of demand and supply.

DUMPING
Dumping is the practice of selling goods in foreign countries at lower prices than what are obtainable in the exporting country.

Exercises

1. What is visible trade?

2. Describe invisible trade.

3. Explain terms of trade with an example.

4. Write short notes on the following

(a) Free trade

(b) Infant industry

(c) Devaluation

(d) Depreciation

Week 9

Topic: Balance of Payment and Counter Trade

Contents:

1. **Balance of payment and counter trade**
2. **Export procedures involved in foreign trade**

Meaning of Balance of payment

Balance of trade can be defined as the total value of goods sold and bought by a country during a given period, usually a year. When visible export equals visible imports in monetary terms,we have balance of trade. A positive balance of trade means a country is exporting more than it is importing while a negative or unfavorable balance of trade occurs when a country imports is more than its export.

Balance of payments can be defined as a statement or record showing the relationship between a country's total payment to other countries and its total receipts from them in a year.

Components of Balance of payments

1. Current Account: This is composed of receipts and payments for visible and invisible services
2. Capital Account: This is made up of the inflow and outflow of capital, it includes both long and short term.It consists of capital movement in form of investments, loans and grants.
3. Monetary Movement Account: This Account shows how the balance of both current and capital accounts are settled.

Favorable balance of payments

This occurs when the receipts from invisible and visible export trade is greater than payments to other countries on visible and invisible imports trade.

Unfavorable balance of payments

This means that payment on visible and invisible import is greater than receipts on visible and invisible exports. It can be called deficit balance of payment.

Remedy for Unfavorable balance of payment

- Control of foreign exchange transaction
- Sales of foreign investment and assets
- Devaluation of domestic currency
- Borrowing from financial institutions like IMF (International Monetary Fund)
- Establishment an promotion of import substitution industries
- Export promotion by granting tax concession to export based industries
- Imposition of tariffs will reduce importation goods by increasing their prices

COUNTER TRADE

Trading between nations has been happening since time began. In ancient time nations traded silk, spices, cloth and animals of all kinds. Today nation trade food items, defense equipment, metals, electronics etc. The products might have changed but the basic concept is still the same as the underlining need which brings together two nations in a trade relationship still exists.

One such method of trading between nations is called counter trade. Counter trade is an import / export relationship between nations or large companies in which good and/or services are exchanged for goods and services instead of money. In some cases monetary evaluations are made for accounting purposes.

Types of counter trade

Barter: It is the exchange of goods and services for goods and services without any use of money. Like the trade relationship between China and Thailand where fruit has been traded by Thailand for buses made by China.

Switch Trading: In this method one company trades products and services or, in some cases, builds infrastructure like roads, railway lines, hospitals with another nation and, in turn, are obligated to make a purchase from that nation. One such example is a deal proposed by the Philippine Government where they offer to trade Philippine coffee for essential products.

Counter Purchase: In this, a foreign company, or country, trades with a nation with the promise that in the future they will make purchase of a specific product from the nation. A recent example of this is the ongoing trade between Congo and China where infrastructure is being traded for a supply of metals.

Buyback: In this type of counter trade, a company builds a plant, supplies technology, training, etc. In exchange they take a part of output of the plant. For example, a company based in the USA sets up a lets say an automobile factory in X country. They take a part of the total produce as their own but they have setup the industry, provided the technology and the training to X country.

Offset: This is an agreement by one nation to buy a product from a company in another. The terms of contract are subject to the purchase of some or all of the components and raw materials from the buyer of the finished product, or the assembly of such product in the buyer nation. This is more common in terms of defense equipments or space crafts etc.

Need for counter trade

So why do nations need counter trade? Why they can they just trade in cash instead?

There can be several reasons for a nation to choose counter trade over cash import and exports.

Some of them are:

Money: sometime the shortage of cash resources leads nation towards counter trade. Developing nations, particularly, have very limited cash resources but they generally are abundant in natural resources. By engaging in counter trade these nations ensure that the resources available to them are fully utilized and they are also able to fulfill their requirements without spending cash.

Protect local industries: by engaging in counter trade, nations ensure that as they give business to a foreign nation they also create business and job opportunities for their own people by promoting the traded commodity.

Balance of trade: Maintaining a positive balance of trade is very important for every nation. Counter trade is a great way for nations to ensure that the import and exports in the nation are balanced as every commodity that is being bought is equaled with some commodity being sold.

Competitive advantage: when it comes to trading there is also competition between various nations. By providing the opportunity of counter trade to other country you gain a competitive edge over the other nations selling or trading the same product.

Export procedures involved in foreign trade

Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting; which of them are actually used in each case depends on the requirements of both our government and the government of the importing country.

1. Commercial invoice
2. Bill of lading
3. Consular invoice
4. Certificate of origin
5. Inspection certification
6. Dock receipt and warehouse receipt

7. Destination control statement
8. Insurance certificate
9. Export license
10. Export packing list

STEP1: Enquiry :

The starting point for any Export Transaction is an enquiry.

An enquiry for product should, inter alia, specify the following details or provide the following data

Size details – Std. or oversize or undersize

Drawing, if available

Sample, if possible

Quantity required

Delivery schedule

Is the price required on FOB or C& F or CIF basis

Mode of Dispatch – Sea, air or Sea/air

Mode of Packing

Terms of Payment that would be acceptable to the Buyer – If the buyer proposes to open any Letter of Credit, any specific requirement to be complied with by the Exporter

Is there any requirement of Pre-shipment inspection and if so, by which agency

Any Certificate of Origin required – If so, from what agency.

STEP 2: – **Proforma generation** :

After studying the enquiry in detail, the exporter – be it Manufacturer Exporter or Merchant Exporter – will provide a Proforma Invoice to the Buyer.

STEP 3: Order placement :

If the offer is acceptable to the Buyer in terms of price, delivery and payment terms, the Buyer will then place an order on the Exporter, giving as much data as possible in terms of specifications, Part No. Quantity etc. (No standard format is required for such a purchase order)

STEP 4: Order acceptance :

It is advisable that the Exporter immediately acknowledges receipt of the order, giving a schedule for the delivery committed.

STEP 5: Goods readiness & documentation :

Once the goods are ready duly packed in Export worthy cases/cartons (depending upon the mode of despatch), the Invoice is prepared by the Exporter.

If the number of packages is more than one, a packing list is a must.

Even If the goods to be exported are excisable, no excise duty need be charged at the time of Export, as export goods are exempt from Central Excise, but the AR4 procedure is to be followed for claiming such an exemption. Similarly, no Sales Tax also is payable for export of goods.

STEP 6: Goods removal from works :

There are different procedures for removing Export consignments to the Port, following the AR4 procedure, but it would be advisable to get the consignment sealed by the Central Excise authorities at the factory premises itself, so that open inspection by Customs authorities at the Port can be avoided.

If export consignments are removed from the factory of manufacture, following the AR4 procedure, claiming exemption of excise duty, there is an obligation cast on the exporter to provide proof of export to the Central Excise authorities

STEP 7: Documents for C & F agent :

The Exporter is expected to provide the following documents to the Clearing & Forwarding Agents, who are entrusted with the task of shipping the consignments, either by air or by sea.

Invoice

Packing List

Declaration in Form SDF (to meet the requirements as per FERA) in duplicate.

AR4 – first and the second copy

Any other declarations, as required by Customs

On account of the introduction of Electronic Data Interchange (EDI) system for processing shipping bills electronically at most of the locations – both for air or sea consignments – the C&F Agents are required to file with Customs the shipping documents, through a particular format, which will vary depending on the nature of the shipment. Broad categories of export shipments are:

Under claim of Drawback of duty

Without claim of Drawback

Export by a 100% EOU

Under DEPB Scheme

STEP 8: Customs Clearance :

After assessment of the shipping bill and examination of the cargo by Customs (where required), the export consignments are permitted by Customs for ultimate Export. This is what the concerned Customs officials call the 'LET EXPORT' endorsement on the shipping bill.

STEP 9: Document Forwarding :

After completing the shipment formalities, the C & F Agents are expected to forward to the Exporter the following documents:

Customs signed Export Invoice & Packing List

Duplicate of Form SDF

Exchange control copy of the Shipping Bill, processed electronically

AR4 (original duplicate) duly endorsed by Customs for having effected the Export

Bill of Lading or Airway bill, as the case may be.

STEP 10: Bills negotiation :

With these authenticated shipping documents, the Exporter will have to negotiate the relevant export bill through authorized dealers of Reserve Bank, viz., Banks.

Under the Generalized System of Preference, imports from developing countries enjoy certain duty concessions, for which the exporters in the developing countries are expected to furnish the GSP Certificate of Origin to the Bankers, along with other shipping documents.

Broadly, payment terms can be:

DP Terms

DA Terms

Letter of Credit, payable at sight or payable at… days.

Step11: Bank to bank documents forwarding :

The negotiating Bank will scrutinize the shipping documents and forward them to the Banker of the importer, to enable him clear the consignment.

It is expected of such authorized dealers of Reserve Bank to ensure receipt of export proceeds, which factor has to be intimated to the Reserve Bank by means of periodical Returns.

STEP 12: Customs obligation discharge :

As indicated above, Exporters are also expected to provide proof of export to the Central Excise authorities, on the basis of the Customs endorsements made on the reverse of AR4s and get their obligation, on this score, discharged.

STEP 13: Receipt of Bank certificate :

Authorized dealers will issue Bank Certificates to the exporter, once the payment is received and only with the issuance of the Bank Certificate, the export transaction becomes complete.

It is mandatory on the part of the Exporters to negotiate the shipping documents only through authorized dealers of Reserve Bank, as only through such a system Reserve Bank can ensure receipt of export proceeds for goods shipped out of this country.

Exercises

1. What is balance of payment?

2. Describe the components of balance of trade.

3. Differentiate between favorable balance of payments and unfavourable balance of payments.

4. Define counter trade.

5. State four (4) reasons for counter trade.

Week 10

TOPIC – Documents used in foreign trade and their process

CONTENT –

1. **Consular Invoice**
2. **Bill of lading**
3. **Certificate of origin**
4. **Shipping note**
5. **Airway bills**
6. **Indent**
7. **Ship Manifest**
8. **Mate Receipt**
9. **Freight note**
10. **Customers specification**
11. **Dock warrant**
12. **Dock landing account**
13. **Bill of sight**
14. **Bill of entry**
15. **Calling forward note**
16. **Lincence**
17. **Export invoce**
18. **Ship report**
19. **Insurance certificate**
20. **Bill of exchange**

CONSULAR INVOICE

Consular Invoice is an important document used in foreign trade. It is issued by the Trade consulate of the importing country stationed in the exporters country. Consular is a government officer having office in other countries. This document is also obtained by the exporter and is sent to the importer along with other shipping documents. This invoice is also useful for importer at the time of payment of import duty. For obtaining document from the consular the exporter has to pay the prescribed fees. This document contains information about goods and the value of goods.

Sometimes, the custom authorities desire to open the packages and scrutinize the goods for the purpose of calculating custom duty. Due to which there is delay in clearing the goods from dock or port. To avoid this, one copy is sent to the custom authorities of the importing country, second copy is retained by the consulate office for reference and the third copy is given to the exporter which is forwarded by exporter to the importer with other documents.

BILL OF LANDING

Bill of lading is one important shipping document necessary and useful in export-import trade transactions. It is a document issued by the shipping company after the shipment of goods. In simple, Bill of lading is a contract between the exporter or the shipper and the shipping company for the carriage of goods from the port of loading to the port of destination.

Bill of lading is a document to title of goods and is transferable by endorsement and delivery. Hence, it is a semi-negotiable instrument. The bill of lading is prepared on the basis of mate's receipt. The importer has to produce this receipt for securing the deliver of goods.

The bill of lading contains following information :-

- Name and address of the exporter and the shipper.
- Name and address of shipping company.
- Name and address of importer or agent.
- Quantity, weight and value of goods sent.
- Place of loading and port of destination.
- Date of loading of goods on the ship.
- Mark description and number of packages.
- Port at which the goods are to be discharged.
- Freight paid or to be paid.
- Signature of the issuing authority with date.
- Any other relevant details.

Important functions of bill of lading are as follows :-

- It is useful to the importer for obtaining delivery of goods from the shipping company and port authorities.
- It is a document of title to goods. A possessor of the bill of lading is entitled to take the delivery of goods.
- It is a semi negotiable document and it is transferable by endorsement and delivery.
- It is a legal document including the contract for carrying goods.
- It is a proof of the fact that the goods are handed over to the shipping company for transportation to the port of destination.

CERTIFICATE OF ORIGIN

Certificate of Origin is an important shipping document sent by the exporter alongwith the other document to the importer. This document is showing or giving the information of the fact that the goods which are exported are manufactured in a particular country i.e. the document certifies that certain goods are manufactured within a specific country only. It is a proof about the origin of goods exported. This certificate is generally issued by the "Chamber of Commerce" or "Export Promotion Council" or "Trade Association" or "Such Other recognised body" on behalf of Government. It is issued to the exporter. It is very useful document to save custom/import duties. As a general rule the rate of import duty is not same for imports from all countries. The goods imported from some other countries are subject to less import duty. Thus, to get the benefit of saving import duty the importer can use the Certificate of Origin, because the government of importing country grants concession in import duty to the importer on the basis of certificate of origin.

SHIPPING NOTE

A document used in shipping goods by sea. In the case of free goods the shipping notes are the receiving note, addressed by the shipper to the chief officer of the vessel, requesting him to receive on board specified goods, and a receipt for the mate to sign, on receiving whose signature it is called the mate's receipt, and is surrendered by the shipper for the bills of lading.

AIRWAY BILLS

An air waybill (AWB) or air consignment note is a receipt issued by an international airline for goods and an evidence of the contract of carriage, but it is not a document of title to the goods. Hence, the air waybill is non-negotiable.

INDENT

This is a document used in international trade; it is an order or privilege to buy goods conveyed by an importer to a potential buyer. Indent is an official order or requisition for goods; it gives details of the goods, approximate price, date of delivery etc.

SHIP MANIFEST

A manifest or customs manifest or "cargo document" is a document listing the cargo, passengers, and crew of a ship, aircraft, or vehicle, for the use of customs and other officials.

MATE RECEIPT

Mate's Receipt is a receipt issued by Captain / Master / Mate of the ship.

The Mate of the ship after receiving the goods on the board and after inspection of the goods issues this receipt.

The loading of the goods on the ship is possible only after presentation of 'shipping order'. Mate's receipt contains details regarding name of ship, date on which the goods are loaded, description of goods, numbers and marks on the packages, conditions of cargo, etc. This receipt is issued to the exporter who has to present the mate's receipt in the office of shipping company by which he will get bill of lading. Mate Receipt may be clean or qualified. It is qualified if there is some defect in the cargo loaded on the ship, in such case the captain makes adverse remark on the receipt. In case of clean receipt, the cargo in good condition and the adverse remark is not mentioned. The bill of lading is always prepared on the basis of mate's receipt. In short mate's receipt is an acknowledgement of the receipt of goods on board of the ship.

FREIGHT NOTE

Freight note is a document which shows the carriage charges for a particular cargo for a specified journey. It is issued by the shipping company to give details of charges for shipping a particular consignment of cargo for a specified journey.

CUSTOMS SPECIFICATION

Customs specification is a document lodged with the customs authorities which shows the value of the goods exported and the country to which they have been consigned. The information in this document enables the Ministry of Trade to calculate the import and export so as to know the balance of trade.

DOCK WARRANT

Dock warrant is a document by which the owner of a marine or river dock certifies that the holder is entitled to goods imported and warehoused in the docks.

DOCK LANDING ACCOUNT

Document issued by a warehouse keeper to a consignee of a recently landed shipment stored in the warehouse. Usually accompanied by a weight note, a landing account gives details of the goods and the date when demurrage charges or warehouse rent begins.

BILL OF SIGHT

A form of entry at the customhouse by which goods respecting which the importer is not possessed of full information may be provisionally landed for examination.

BILL OF ENTRY

An account of goods entered at a customhouse, of imports and exports, detailing the merchant, quantity of goods, their type, and place of origin or destination. It is issued by the customs presenting the total assigned value and the corresponding duty charged on the cargo.

CALLING FORWARD NOTE

Calling forward note is a document sent by the shipping company to the forward agent, stating the date which goods must arrive at the dock for loading.

LICENCE

Licence allows the importer to bring a certain quantity of foreign goods into a country and to purchase foreign exchange. They are required to restrict import quota. Licence must be obtained by the importer before goods can be imported. This is used to control foreign trade so as to prevent dumping.

INSURANCE CERTIFICATE

A certificate of insurance is a document issued by an insurance company/broker that is used to verify the existence of insurance coverage under specific conditions granted to listed individuals.

BILL OF EXCHANGE

A written, unconditional order by one party (the drawer) to another (the drawee) to pay a certain sum, either immediately (a sight bill) or on a fixed date (a term bill), for payment of goods and/or services received. The drawee accepts the bill by signing it, thus converting it into a post-dated check and a binding contract.
A bill of exchange is also called a draft but, while all drafts are negotiable instruments, only “to order” bills of exchange can be negotiated.

Exercises

1. Write short notes on the following

(a) Bill of entry

(b) Mate receipt

(c) Bill of landing

(d) Airway Bills

2. State the information found on a bill of lading.

3. List four (4) functions of bill of lading.

4. What is a certificate of origin?

5. Differentiate between dock warrant and dock landing account

SS 1

COMMERCE

THIRD TERM

TABLE OF CONTENT

Week 1

Topic- Documents Used in Foreign Trade (Revision)

Contents-

1. The types of document used in international trade

Introduction

Export and Import Documents lies at the heart of all international trade transactions. It provides exporters and importers with an accounting record; shipping and logistics companies with instructions of what to do with freight information; and banks with instructions and accounting tools for collecting payments.

For an international trade to succeed and go smoothly, there is a need for some documents to be made available and provided, these documents are as follows:

1. Indent: This is a document used in international trade; it is an order or privilege to buy goods conveyed by an importer to a potential buyer. Indent is an official order or requisition for goods; it gives details of the goods, approximate price, date of delivery etc.

It can be open or close. Open indent is the one that have to do with an order from abroad to a merchant with freedom to purchase goods from any manufacturer he pleases while closed indent the foreign buyer will specify the manufacturer from whom the goods are to be purchased.

2. Bill of lading: A bill of lading is a document of title giving the holder a right to take possession of the goods to which it refers. A bill of lading is a contract of carriage of goods between an exporter and the shipping company.

Contents of a Bill of Lading

A bill of lading contains the following

1. The name of the ship carrying the goods.
2. Description of the goods such as the quantity, type, weight etc.
3. The shippers name.

4. The names of the consignor and consignee
5. Addresses of both consignor and consignee
6. Addresses of both consignor and consignee
7. The port of embarkation/port of loading
8. Conditions of carriage e.g. that pays the fright charges.
9. The port of disembarkation/port of unloading.
10. Location of the goods in the ship
11. The expected time of arrival.

Types of Bill of Lading

There are two main types of bill of lading, which are:

1. **Clean bill of lading**: A clean bill of lading is one signed by the transporter. It shows that the goods are in good order or condition or are free from irregularities.
2. **Dirty or foul bill of lading**: A foul bill of lading is one which indicates some deficiencies, irregularities or damage on the goods.
3. **Freight Note**: Freight note is the note which shows the carriage charges for a particular cargo for a specified journey.
4. **Dock warrant**: Dock warrant is a receipt for goods delivered and stored in the warehouse. It entitles the holder to take possession of goods.
5. **Bill of sight**: Bill of sight is a document that a person importing that a person importing goods who cannot fully describe them, gives to the customs authorities, allowing them to examine the goods when they arrive. Others are:
6. Dock landing Account.
7. Customs specification.
8. Insurance certificate.
9. Bill of exchange.

Other documents include:

Air Waybill
An Air Waybill AWB is a non-negotiable transport document covering transport of cargo from airport to airport. The Air Waybill must name a consignee (who can be the buyer), and it

should not be required to be issued “to order” and/or “to be endorsed” as it is not a title of property of the merchandise. Since it is not negotiable, and it does not evidence title to the goods, in order to maintain some control of goods not paid for by cash in advance, sellers often consign air shipments to their sales agents, or freight forwarders’ agents in the buyer’s country.

Certificate of Origin

The Certificate of Origin certifies the country in which the goods originated or in which the preponderance of manufacturing or value was added. It also constitutes a declaration by the exporter. Virtually every country in the world considers the origin of imported goods when determining what duty will be assessed on the goods. Nevertheless the exporter´s own certification on company letterhead will suffice. In most countries, Chambers of Commerce are the key agent in the delivery of certificates of origin. However, in some countries, this privilege may also be extended to other entities such as ministries or customs authorities.

Bill of Exchange

A Bill of Exchange is an unconditional order in writing, addressed by one person to another, requiring the person to whom it is addressed to pay a certain sum of money, either immediately or at a stated future date to the bearer.

Test and Exercise

1. The indent in which the foreign buyer will specify the manufacturer in which goods are to be purchased is (a) open (b) closed (c) general (d) special.

2. ——— is a document of title giving the holder a right to take possession of the goods to which it refers (a) bill of lading (b) indent (c) shipping note (d) freight note.

3. All of the following are means of payment except (a) bank draft (b) mail transfer (c) documentary credit (d) all of the above.

4. Bill of lading is of ———types (a) 3 (b) 5 (c) 2 (d) 6.

5. The type of bill of lading that is signed by the transporter (a) clean bill of lading (b) dirty or foul bill of lading (c) unclean bill of lading (d) none of the above.

Week 2

Topic: Customs And Excise Authority

Contents:

1. Functions of the customs and excise authority
2. Preventive services and tax duties
3. Export promotional council and functions

Customs And Excise Authority

The customs and excise authorities assess and collect the customs and excise duties levied by the government as an important source of revenue. The customs and excise authorities make sure that the amount of certain imports does not exceed the quota or limit allowed to be imported within a specified period. Quotas are imposed to protect the local manufacturers from foreign competition and only a limited amount of foreign goods will be allowed into the domestic market to compete with the locally manufactured goods.

Functions of the customs and excise authority

i) Collection of Tariffs: It assesses and collects revenue from tariffs and excise duties.

ii) Supervision of Warehouse: The customs department supervises bonded warehouse.

iii) Compilation of Statistical Records: The department compile statistics on export and import trade which is supplied to the government.

iv) Prevention of Smuggling: The customs authority prevents smuggling and seize contraband goods.

v) Supervision of Foreign Trade: It supervises foreign trade by ensuring that only licensed goods are imported and exported.

vi) Enforcement of Ban: The customs authority ensues that bans on prohibited goods are enforced.

vii) Provision of Quarantine Facility: It provides appropriate quarantine facilities for the importation of livestock.

viii) Completion of Documents: The customs will ensure that customs declaration forms and other dicuments are completed.

Preventive services and tax duties

The service is mandated to collect Import and export duty tax, petroleum tax and import excise. It promotes the protection of revenue through the prevention of smuggling of goods across the country's borders. The service protects the boundaries of the country by preventing external aggression and promotes territorial integrity of the country. Import and export restrictions and prohibitions are supervised by the service.

Nigerian Export Promotion Council

Nigerian Export Promotion Council (NEPC) was set up to assist exporters in the course of exporting goods and to set out procedures for export trade. The council also assist in assessing the performance of Nigeria's export commodities in foreign market.

Functions of the Nigerian Export Promotion Council

The following are the functions of the Nigerian Export Promotion Council

- **Trade information service**: The Nigerian Export Promotion Council establishes and operates international trade information centres to provide prompt information service.
- **Organize training Activities**: NEPC organizes training programs, seminars, conferences, and workshops in export management and international marketing.
- **Creation of awareness:** The council produces publicity materials to publicize the export potentials of the country and by so doing create awareness for them and the council's activities.
- **Export development activities**: The NEPC helps to give advice on quality control, packaging, and product design to ensure acceptable standard of exportable goods.
- **Export Financing and Incentives**: It assists in in financing export by evolving measures designed to make available export financing facilities, investment etc.
- **Trade Enhancement Activities**: NEPC reviews all liberalizes export procedures and documentation to enhance clearance at the port.

Exercises

1. Describe a Customs and Excise Authority.

2. State the functions of the Customs and Excise Authority in Nigeria.

3. What is the Nigerian Export Promotion Council?

4. Explain the functions of the Nigerian Export Promotion Council.

5. Enumerate the duties of Preventive services and tax duties authority?

Week 3

Topic: Nigerian Port Authority (NPA)

Contents:

1. **Meaning of Nigerian Port Authority**
2. **Function of Nigerian Port Authority**
3. **Nigerian Airports Authority (NAA)**
4. **Function Airports Authority**

Nigerian Ports Authority

The Nigerian Ports Authority (NPA) is a federal government agency that governs and operates the ports of Nigeria. The major ports controlled by the NPA include: the Lagos Port Complex and Tin Can Island Port in Lagos; Calabar Port, Delta Port, Rivers Port at Port Harcourt, and Onne Port. Operations of the NPA are carried out in affiliation with the Ministry of Transport and the Nigerian Shippers' Council. The Head office of the Nigerian Ports Authority is located in Marina, Lagos.

Function of Nigerian Ports Authority

- Ownership and administration of land and water within port limits.
- Planning and development of port operational infrastructure.
- Leasing and concession of port infrastructure and setting bench mark for tariff structure
- Responsible for nautical/Harbour operations and hydrographic survey.
- Marine incidents and pollution
- Maintenance of safety and security at the common user areas.
- Enacting port regulations and bye-laws as well as monitor and enforce them
- Day to day monitoring of operations and enforcement of relevant sections of respective agreements.

Nigeria Airports Authority

This is a statutory body charged with the responsibility of controlling and managing the airports as well as providing adequate airports facilities. Examples of local and international air port in Nigeria are: Muritala Mohammed International Airport, Aminu Kano International airport are examples of international airport. Enugu airport, Calabar airport are examples of local airport.

Functions of Port Authority

- **Provision of warehouse:** The airports authority are involved in providing of warehouse for storage of goods before loading and off loading
- **Ensures cleanliness of airport**: The airports authority sees to the environmental sanitation of the airport
- **Administration**: It sees to the general administration, management and control of the airport.
- **Revenue collection**: The airport authority takes charge of collecting airport taxes from airlines, shop operators in the airport etc.
- **Promotion of Foreign Trade**: The Nigerian Airports Authority promotes foreign trade through the movement of goods and services.
- **Housing of security agents:** The airports authority provides office accommodation for customs, immigration, police and other agents working at the airport.

Exercises

1. What is the meaning of Ports Authority?

2. Give three (3) functions of the Nigerian Ports Authority.

3. Briefly explain the function of the Nigerian airports authority.

4. State four facilities provided by a good airport.

5. Name five (5) airports in Nigeria.

Week 4

Topic: Banking System

Contents:

1. Meaning and History of Banking
2. Types of banks – Central banks, Commercial banks, Saving banks, etc.
3. Central Bank of Nigeria (CBN)
4. Origin and Functions
5. Meaning and Function of Commercial Banks
6. Types of Accounts

Meaning and And History of Banking

A bank is an establishment authorized by a government to accept deposits, pay interest, clear checks, make loans, act as an intermediary in financial transactions, and provide other financial services to its customers. Money can also be borrowed from the banks for business activities or for personal use. A bank is a financial institution that creates credit by lending money to a borrower, thereby creating a corresponding deposit on the bank's balance sheet. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial system and influence on national economies, banks are highly regulated in most countries. A bank is a financial institution licensed as a receiver of deposits. There are two types of banks: commercial/retail banks and investment banks. Banks play an important role in buying, selling and distribution activities in the economy. It is an aid to trade

Banking had its origin with the goldsmiths in London in the seventeenth century. The goldsmith had facilities for storing valuables, therefore, they accepted money and other valuables from merchants for safekeeping.

The first banking function was accepting deposits of cash from merchants who had no safe place to keep their money. The goldsmith at first demanded a charge for looking after their money. The second stage came when receipts for these deposits began to be used as means of payment by merchants. This made the early bankers to issue bank notes of fixed denominations which were generally acceptable.

The next stage in the development of the banking system was the development of money lending to customers with interest charged on it. This provided a profitable business, hence bankers began to offer the inducement of interest to encourage merchants and others to increase their deposits.

In recent times, banks have introduced more sophisticated systems of banking into the industry.

Types of Banks

There are different kinds of banks in Nigeria. They include

Central Bank of Nigeria (CBN): The CBN is the government bank and it acts as the banker to other banks.

Commercial Banks: These are the most relevant banks to trade. They carry out their commercial activities to make profit like any other business. Some of the commercial banks in Nigeria are First Bank of Nigeria (FBN), Union Bank of Nigeria (UBN), Zenith Bank (PLC) Guaranteed Trust Bank (PLC)

Mortgage Banks: These are banks that are into granting loans to individuals and co-operate bodies for building purpose. Examples of Mortgage bank are Union Homes and Savings Ltd, AG Homes and savings Ltd etc.

Merchant Banks: These are banks which perform special functions such as accepting bill of exchange, issuing new shares, issuing loans for foreign transaction. They are sometimes called as **Acceptance Houses**. Examples: Merchant Bank of Africa, First City Merchant Bank etc.

Development Banks: These are banks which provide long term credit or loans to other enterprises for capital projects. They provide loans in the area of Agriculture, Commerce and Industry.

Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) is a financial institution that manages the country's currency, money supply and interest rates. The CBN possesses the monopoly to increase the amount of money in the nation and also prints the national currency – the nation's legal tender. The major function of the central bank is to manage the nation's money supply. Central Bank also have supervisory powers intended to prevent bank runs and also to monitor commercial banks in order to prevent fraudulent activities.

The Central Bank of Nigeria was established by the CBN Act of 1958 and commenced operations on July 1, 1959.

Functions Of Central Bank of Nigeria

1. **Bank Of Note Issue**: The Central Bank has the sole monopoly of issuing bank notes in every country. The currency notes printed and issued by the Central Bank serves as the nation’s legal tender and this will be accepted as a means of exchange for goods and services all over the nation.
   Advantages of The Right to Issue Bank Note to the Central Bank are:
   a. Central Bank will be able to exercise better control of money supply in the nation
   b. It enables the Central Bank to exercise control over the creation of credit by commercial banks.
   c. It brings uniformity in note issue and circulation in the country
   d. Easier management of paper currency. Being the supreme bank of the country, the central bank has monetary information of the economy and can change the currency accordingly.

2. **Lender of the Last Resort**: This means that when a bank is faced with shortage liquid fund, after trying all other sources to obtain loan without success, it can always apply to the Central Bank for loan. This function is an extension of its function as the banker’s bank.

3. **Banker to other Banks and Financial Institutions**: Central Banks act as banker to other commercial banks. The Central Bank keeps bank accounts for commercial and merchant banks and other financial institutions operating within the country. They maintain two types of bank accounts for these banks; statutory deposit – for minimum cash requirement and operational deposit – enough cash to maintain inter-bank settlement. The Central bank functions in 3 capacities as:
   a. Lender of Last resort to other banks
   b. Clearing agent
   c. Custodian of cash

4. **Debt Management**: The Central bank manages its domestic debt and services external debt on the instruction of the Federal Ministry of Finance. They are empowered to issue debt instrument and manage Federal Government’s domestic debt in terms and conditions agreed upon by the Government and the bank.

5. **Banker and Adviser to the Government**: The Central Bank performs same functions both to the commercial banks and the Government. The Central bank does the following:
   a. Maintains the account of the state government.
   b. Accepts deposit from the government
   c. Provides foreign exchange for repaying debts or buying foreign goods from outside the country.
   d. Gives advise to the government on economic, monetary, financial and fiscal matters such as financing, devaluation, monetary policy.
   Another function that the CBN has performed since its inception is aiding the development of the Nigerian economy’s industrial, agricultural and financial sectors.

The CBN was also granted overall administrative authority over the Nigerian federal government's financial and monetary policies.

CBN Structure

Commercial Banks

The most important function of the commercial banks is safe keeping of money until the owner needs it. To save money in the bank, a person must open a bank account with a certain amount of money. If you bring in money the bank will credit your account and debit your account if you withdraw the money.

Functions OF Commercial Banks

The functions of commercial banks are:

(1) Primary Function:

1. Accepting Deposits:

It is the most important function of commercial banks. They accept deposits in several forms according to requirements of different sections of the society.

The main kinds of deposits are:

(i) Current Account Deposits or Demand Deposits: These deposits refer to those deposits which are repayable by the banks on demand:

1. Such deposits are generally maintained by businessmen with the intention of making transactions with such deposits.

2. They can be drawn upon by a cheque without any restriction.

3. Banks do not pay any interest on these accounts. Rather, banks impose service charges for running these accounts.

(ii) Fixed Deposits or Time Deposits: Fixed deposits refer to those deposits, in which the amount is deposited with the bank for a fixed period of time.

1. Such deposits do not enjoy cheque-able facility.

2. These deposits carry a high rate of interest.

Basis	**Demand Deposits**	**Fixed Deposits**
Cheque facility	They are chequeable deposits.	They are non-chequeable deposits.
Interest payments	They do not carry any interest.	They carry interest which varies directly with the period of time.
Number of transactions	The depositor can make any number of transactions for deposit or with drawl of money.	Depositor generally makes only two transactions: (i) Deposit of Money in the beginning;

		(ii) Withdrawal of money on maturity.

(iii) Saving Deposits:

These deposits combine features of both current account deposits and fixed deposits:

1. The depositors are given cheque facility to withdraw money from their account. But, some restrictions are imposed on number and amount of withdrawals, in order to discourage frequent use of saving deposits.

2.They carry a rate of interest which is less than interest rate on fixed deposits. It must be noted that Current Account deposits and saving deposits are chequable deposits, whereas, fixed deposit is a non-chequable deposit.

2. Advancing of Loans:

The deposits received by banks are not allowed to remain idle. So, after keeping certain cash reserves, the balance is given to needy borrowers and interest is charged from them, which is the main source of income for these banks.

Different types of loans and advances made by Commercial banks are:

(i) Cash Credit:

Cash credit refers to a loan given to the borrower against his current assets like shares, stocks, bonds, etc. A credit limit is sanctioned and the amount is credited in his account. The borrower may withdraw any amount within his credit limit and interest is charged on the amount actually withdrawn.

(ii) Demand Loans:

Demand loans refer to those loans which can be recalled on demand by the bank at any time. The entire sum of demand loan is credited to the account and interest is payable on the entire sum.

(iii) Short-term Loans:

They are given as personal loans against some collateral security. The money is credited to the account of borrower and the borrower can withdraw money from his account and interest is payable on the entire sum of loan granted.

(2) Secondary Functions:

1. Overdraft Facility:

It refers to a facility in which a customer is allowed to overdraw his current account upto an agreed limit. This facility is generally given to respectable and reliable customers for a short period. Customers have to pay interest to the bank on the amount overdrawn by them.

2. Discounting Bills of Exchange:

It refers to a facility in which holder of a bill of exchange can get the bill discounted with bank before the maturity. After deducting the commission, bank pays the balance to the holder. On maturity, bank gets its payment from the party which had accepted the bill.

3. Agency Functions:

Commercial banks also perform certain agency functions for their customers. For these services, banks charge some commission from their clients.

Some of the agency functions are:

(i) Transfer of Funds:

Banks provide the facility of economical and easy remittance of funds from place-to-place with the help of instruments like demand drafts, mail transfers, etc.

(ii) Collection and Payment of Various Items:

Commercial banks collect cheques, bills,' interest, dividends, subscriptions, rents and other periodical receipts on behalf of their customers and also make payments of taxes, insurance premium, etc. on standing instructions of their clients.

(iii) Purchase and Sale of Foreign Exchange:

Some commercial banks are authorized by the central bank to deal in foreign exchange. They buy and sell foreign exchange on behalf of their customers and help in promoting international trade.

(iv) Purchase and Sale of Securities:

Commercial banks buy and sell stocks and shares of private companies as well as government securities on behalf of their customers.

(v) Income Tax Consultancy:

They also give advice to their customers on matters relating to income tax and even prepare their income tax returns.

(vi) Trustee and Executor:

Commercial banks preserve the wills of their customers as trustees and execute them after their death as executors.

(vii) Letters of Reference:

They give information about the economic position of their customers to traders and provide the similar information about other traders to their customers.

4. General Utility Functions:

Commercial banks render some general utility services like:

(i) Locker Facility:

Commercial banks provide facility of safety vaults or lockers to keep valuable articles of customers in safe custody.

(ii) Traveller's Cheques:

Commercial banks issue traveler's cheques to their customers to avoid risk of taking cash during their journey.

(iii) Letter of Credit:

They also issue letters of credit to their customers to certify their creditworthiness.

(iv) Underwriting Securities:

Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.

(v) Collection of Statistics:

Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers on financial matters. Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Money Creation'.

Types of Accounts

Savings Accounts

These are intended to provide an incentive for you to save money. You can make deposits and withdrawals, but usually can't write checks. They usually pay an interest rate that's higher than a checking account, but lower than a money market account or CD. Some savings accounts have a passbook, in which transactions are logged in a small booklet that you keep, while others have a monthly or quarterly statement detailing the transactions. Some savings accounts charge a fee if your balance falls below a specified minimum.

Basic Checking Accounts

Sometimes also called “no frills” accounts, these offer a limited set of services at a low cost. You’ll be able to perform basic functions, such as check writing, but they lack some of the bells and whistles of more comprehensive accounts. They usually do not pay interest, and they may restrict or impose additional fees for excessive activity, such as writing more than a certain number of checks per month.

Interest-Bearing Checking Accounts

In contrast to “no frills” accounts, these offer a more comprehensive set of services, but usually at a higher cost . Also, unlike a basic checking account, you are usually able to write an unlimited number of checks. Checking accounts which pay interest are sometimes referred to as negotiable order of withdrawal (NOW) accounts. The interest rate often depends on how large the balance in the account is, and most charge a monthly service fee if your balance falls below a preset level.

Money Market Deposit Accounts (MMDAs)

These accounts invest your balance in short-term debt such as commercial paper, Treasury Bills, or CDs. The rates they offer tend to be slightly higher than those on interest-bearing checking accounts, but they usually require a higher minimum balance to start earning interest. These accounts provide only limited check writing privileges (three transfers by check, and six total transfers, per month), and often impose a service fee if your balance falls below a certain level.

Certificates of Deposit (CDs)

These are also known as “time deposits”, because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from three months to six years. Because the money will be inaccessible, the account holder is rewarded with a higher interest rate, with the rate increasing as the duration increases. There is a substantial penalty for early withdrawal, so don’t select this option if you think you might need the money before the time period is over (the “maturity date”).

Exercises

1. State and explain five (5) functions of commercial banks.

2. Explain four (4) reasons why a trader may prefer the use of cheque to cash for large payments.

3. Explain three (3) types of accounts operated in commercial banks.

4. What is the major function of the Central Bank of Nigeria (CBN)?

5. Explain each of the following:

a) Order cheque

b) Bearer cheaque

c) Certified cheque

d) Non negotiable cheque

Week 5

Topic – Sole Proprietorship

Contents

Meaning of a Sole Proprietorship

The sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts.

A sole proprietorship is a form of business enterprise owned, financed, and managed by one person with the primary aim of making profit. A sole proprietor is a one man business; it is the oldest and cheapest means of business organization.

Examples of a sole proprietorship are found in primary industries like farming, doctor, lawyer etc.

Features and Characteristics of a Sole Proprietorship

1. **Objective**: The main objective of a sole proprietorship is to make profit.
2. **Source of capital**: The source of capital for a sole proprietorship business is provided by the owner of the business.
3. **Legal entity**: A sole proprietor business is not a legal entity as it is not because the owner is not separated from the business.
4. **Lifespan**: The lifespan of the business depends majorly on the owner, it can fold up anytime. The death of the owner brings the business to a close.
5. **Management**: The business is controlled and managed by the sole proprietor himself.

Sources of Capital of a Sole Proprietorship

The sole proprietor can obtain his/her capital from the following sources

1. **Loan and overdraft from banks**: The sole proprietor can also obtain capital from financial institutions; this can be in form of loans or an overdraft.
2. **Trade credit**: They can obtain capital by purchasing goods on credit from the suppliers, producers, wholesalers.
3. **Personal savings**: A sole proprietor can obtain capital from his previous savings; he can use his personal income as the initial capital.
4. **Grants and loan from Government**: The government can grant loan and release capital to its agencies in support of certain programmes.

Advantages of Sole Proprietorship

1. **It is very easy to establish**: The one man business is easy to establish since it involves little capital to start with. It does not involve much protocol or procedures to set it up.
2. **Decision making is fast**: Quick decision is easily taken by the sole proprietor alone without the consent of other workers in the organization which makes decision making very fast.
3. **Personal rewards**: The sole proprietor enjoys the reward and all the profit of the business alone because he invests his time, money and effort so as to get reward.
4. **It requires small operation**: The sole proprietorship serves fragmented markets in West Africa and as such, large operations would not be necessary.
5. **There is privacy**: There is privacy in the operation of business operation and can decide to keep the matter and affairs of the business private without anybody interacting.
6. **There is a close relationship between the owner and the customer**: The close relationship between the owner and customers allows the former to give special attention to the latter.
7. **It involves small capital**: A sole proprietorship business needs little capital to start with.

Disadvantages of Sole proprietorship

1. **There is limitation to expansion**: A sole proprietorship suffers from ideas, expansion as a result of small capital.

2. **He bears the risk alone**: He bears all the risk of the business alone, when the business fails; he suffers it alone.
3. **It has unlimited liability**: In the event of business failure, his assets and properties have to be sold to pay his creditors.
4. **Problems of continuity**: The death of the owner can actually bring the business to a close especially when there is nobody to take over the business from the person.
5. **Inadequate capital**: He is always faced with inadequate capital because of the small size of his business and his ability to source fund.
6. **He lacks specialization**: The owner is personally involved in all section of the business and therefore those not have any area of specialization.

Test and Exercise

1. The aim of a sole proprietor is (a) To sell at a cheaper price (b) to maximize profit (c) to have a relationship with their customers (d) To see to their environment.
2. One of the features of a sole proprietorship that states that the business is owned by one person is (a) source of capital (b) Objective (c) Liability (c) ownership.
3. All of the following are sources of capital to a sole proprietor except (a) loans from banks (b) personal savings (c) trade credit (d) the startup capital.
4. One of the disadvantages of a sole proprietor (a) problem of continuity (b) it involve small capital (c) it is easy to manage (d) decision making is fast.
5. One of the advantages of a sole proprietor is this (a) the death of the man can bring the business to a close (b) It has unlimited liability (b) It is easy to establish (d) he bears all the risk alone.

Week 6

Topic: Partnership (I)

Contents: PARTNERSHIP

1. **Meaning of partnership**
2. **Formation of partnership and terms of agreement**
3. **Characteristics of partnership**
4. **Sources of capital of partnerships**
5. **Types of partnership**

Meaning of Partnership

A partnership can be defined as the type of business organization in which two to twenty persons agree together legally to set up and manage a business with the aim of making profit.

A Partnership is a business organization in which two or more individuals manage and operate the business. Both owners are equally and personally liable for the debts from the business.

Partnership is usually formed by an association of two to twenty persons who by an agreement (usually legal) decide to pool their resources (capital) or skill together in order to establish a business enterprise.

In section 1 of the partnership Act 1890 partnership is defined as a relationship which subsists between persons carrying on a business in common with a view of making profit.

Formation of a partnership and terms of agreement

A partnership business is formed based on the agreement made by the partners to pool resources together with the common aim of making profit, the partners have some certain unavoidable obligations to third parties, they make such agreement within themselves, they also express their intention in a partnership agreement known as “deed of partnership”

The provisions in the partnership Deeds are as follows:

1. The names of the partners
2. The nature of the business

3. The name of the firm
4. The duration of the business
5. Capital contribution
6. Sharing of profit and loss of the business
7. The objective of the firm
8. interest payable on loan from the members
9. Procedure in the event of death of one of the member
10. Remunerations and salaries.
11. Drawing Rights
12. Management of their business.

Characteristics of partnership

The characteristics of partnership are as follows:

1. **Objective:** The objective of a partnership business is to make profit.
2. **Life span:** The life span depends on the agreement made by the partners involved.
3. **Management:** The business is managed and controlled by the partners.
4. **Liability:** The partners have unlimited liability.
5. **Source of capital:** The capital to start and run the business is provided by the partners based on legal agreement.
6. **Legal entity:** It is not a legal entity as the partners are not separated from the business.
7. **Ownership:** The partnership is owned by two to twenty persons but in banking enterprise it is between two to ten persons.

Sources of Capital of a partnership

Sources of capital for a partnership business are mentioned below:

• Undistributed profit; this is part of profit made in the business but are left aside for the continuation of the business
• Members initial contribution
• Loans and overdrafts from banks
• Credit purchase from companies or individuals

TYPES OF PARTNERSHIP

The following below are types of partnership

1. General or ordinary partnership: In general partnership, partners have equal responsibility and risk in the business. Here the liabilities of members is unlimited, they all take active part in the administration and management. All partners are agents of the firm and they all share the responsibilities of running the business.

Features of a general or ordinary partnership

1. They have equal power in binding the contract
2. All the partners have unlimited liabilities
3. Partners are agents of the firm
4. They have equal responsibility in management.
5. Limited partnership: Limited partnership is the type of partnership which is formed and registered under the Limited Partnership Act

2. Limited Partnership: Is a form of *partnership* similar to a general *partnership*, except that in addition to one or more general partners (GPs), there are one or more *limited* partners (LPs). It is a *partnership* in which only one *partner* is required to be a general *partner*. In limited partnership, the partners cannot take equal part in the management and administration of the business.

Features of limited liability partnership

1. A limited partner cannot participate in the management of the business.
2. liability is limited but there must be a partner with unlimited liability
3. It must be registered.

Test and Exercise

1. The objective of partnership is (a) to agree together (b) to make profit (c) to embezzle customers (d) to be known in the business.
2. A document drawn up to clarify the respective the respective position of the partners in business is (a) deed of partnership (b) legal entity (c) appointment note (d) note of surety.

3. The type of partnership where partners have equal responsibility and risk in the business is (a) limited partnership (b) unlimited partnership (c) general partnership (d) private partnership.
4. Partnership is usually forms by an association of (a) 2 to 15 people (b) 2 to 20 people (c) 5 to 10 people (d) all of the above.
5. A type of business where two to twenty persons agree legally to set up and manage a business with the aim of making profit is (a) partnership (b) sole proprietorship (c) cooperate organization (d) all of the above.

Week 7

Topic: Kinds of Partners and Rights of Partners

Contents:

1. Kinds of Partners
2. Rights of Partners
3. Advantages and disadvantages
4. Balance sheet, items of partnership
5. Conditions for dissolution

A partnership is a unique type of business. It's composed of at least two owners, but it could have many owners (thousands, even). These owners share in the benefits and drawbacks of the business partnership, according to the terms of a partnership agreement that they sign when they join the partnership.

KINDS OF PARTNERS

The various kinds of partners are as the following:

1. **Active partners:** He carries on business on behalf of the other partners. An active partner takes active part in the management and administration of a partnership business. If he wants to retire, he has to give a public notice of his retirement; otherwise he will continue to be liable for the acts of the firm.

2. **Sleeping or Dormant:** A sleeping partner is a partner who 'sleeps', that is, he does not take active part in the management of the business. Such a partner only contributes to the share capital of the firm, is bound by the activities of other partners, and shares the profits and losses of the business. A sleeping partner, unlike an active partner, is not required to give a public notice of his retirement. As such, he will not be liable to third parties for the acts done after his retirement.

3. **Nominal partner:** It may be clarified that a nominal partner is not the same as a sleeping partner. A sleeping partner contributes capital shares profits and losses, but is not known to the outsiders. A nominal partner, on the contrary, is admitted with the purpose of taking advantage of his name or reputation. As such, he is known to the outsiders, although he does not share the profits of the firm nor does he take part in its management. Nonetheless, both are liable to third parties for the acts of the firm.

4. **Limited Partners:** A limited partner is the type of partner is the one who has agreed to contribute a certain sum to a partnership business and it's prevented by law from taking any active part in the management and administration of the business.

5. **General partner:** A general partner has full power of participating in the conduct and management of the partnership business, he is entitled to full share in the management

RIGHTS OF PARTNERS

A partner has the right to act as the agent of the business

1. Every general partner can take part in the management of the partnership.

2. They must be indemnified by the firm in respect of payments made and personal liabilities incurred by them in the conduct of the business.

3. Every partner must have access to the partnership books of accounts.

4. The partners are entitled to share from the profits of the partnership business.

5. A partner that pays the agreed capital in advance is entitled to 5% interest.

ADVANTAGES OF PARTNERSHIP

The following are the advantages of partnership

1. There is great possibility of expansion.

2. There will be increase in efficiency

3. There is better management in a partnership business

4. It brings about increase in production

5. There will be sufficient capital to run the business

6. There is better chance of continuity

7. There is access to loan facilities

8. The risk and liabilities of the business are shared.

DISADVANTAGES OF PARTNERSHIP

1. There is limited growth

2. Disagreement between partners can bring the business to an end

3. Action of one partner is binding on others

4. Risk of dissolution
5. Difficulty in management
6. It is not a legal entity
7. There is unlimited liability

BALANCE SHEET OF PARTNERSHIP

ITEMS OF PARTNERSHIP

The following provisions should be made and agreed upon by members in the partnership deed:

i) Sharing of profit and loss.

ii) Management of their business.

iii) Duration of the business.

iv) Drawing rights.

v) Capital contribution.

vi) Interest payable on loans from members.

vii) Procedure in the event of death of a member.

viii) Admission of new members.

ix) Renumerations/salaries.

x) The names of the partners.

xi) The nature of the business.

xii) The name of the firm.

xiii) The objective of the firm.

DISSOLUTION OF PARTNERSHIP

Dissolution of partnership is the coming to an end of a partnership agreement. It is the breakup of a partnership business. A partnership can be automatically dissolved due to the following factors:

1. **Death of a partner: T**he death of one of the partners can actually bring the business to a close.
2. **Insolvency of the business:** The business can also be dissolved if they cannot meet their obligations.
3. **Expiration of agreement:** When the agreed plans of expiration elapse; the business can be dissolved.
4. **Court verdict:** The court can decree dissolution in certain cases, for instance, if a partner is incapacitated or there is misconduct.
5. **Insanity of a partner:** If one of the partners becomes insane, others can apply to the court for dissolution.
6. **Joint decisions:** A partnership business can also come to an end base on the joint decision of the partners to stop the business.

7. **Bankruptcy of a partner:** When one of the partners is embezzling or going bankruptcy can make the partnership dissolved.

5. **Rules for distribution of Assets on dissolution**

The following rules must be followed for proper dissolution of a partnership business.

1. The partners capital must be settled
2. Partners loan must be paid
3. Losses must be paid out of the capital
4. Any profit on the realization of assets must be shared in the partnership profit sharing ratio.
5. Payments of debts and liabilities to outside creditors must be made.

Exercises

1. What is a business partnership?

2. State six contents of a Deed of partnership.

3. What are the problems partners are likely to face in partnership business?

4. State three (3) conditions suitable for the formation of partnership

5. Tayo and Chinedu have teamed up to forma a partnership business. Explain five benefits they are likely to derive.

Week 8

Topic: Savings and Specialised Banks

Contents:

1. Specialised Banks
2. Development Banks
3. Micro Finance

SPECIALISED BANKS

There are some specialised banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. They engage themselves in some specific area or activity and thus, are called specialised banks.

Specialized banks are established in Nigeria to carter for the financial needs of some segments of the society. The banks in this category include the Federal Savings Bank (Now FSB International), people's bank of Nigeria (PBN) and Community Banks (CB).

Specialised Banks in Nigeria Include:

The Federal Savings Bank (FSB International)

The Federal Savings Bank (FSB) evolved from the post office savings banks in 1974, backed by Decree No. 33 of 1973. The objective of setting up a Federal Saving Bank was to encourage the savings habit among the low- income group in the society. It was recognized in 1990, as FSB international Ltd.

Community Banks

A Community Bank (CB) is defined as a self – sustaining financial institution owned and managed by a community or group of communities to provide financial services to that country. Community Banks were established in Nigeria in 1990 to provide banking facilities for rural dwellers as well as to support micro-enterprises in urban areas.

Merchant Banks

A financial institution that specializes in services such as acceptance of bills of exchange, hire purchase or installment buying, international trade financing, long-term loans, and management of investment portfolios.

Merchant banks also advise on (and invest own funds in) acquisitions, mergers, and takeovers.

Savings Banks

A savings bank is a financial institution whose primary purpose is accepting savings deposits and paying interest on those deposits.

They originated in Europe during the 18th century with the aim of providing access to savings products to all levels in the population. Often associated with social good these early banks were often designed to encourage low income people to save money and have access to banking services. They were set up by governments or by socially committed groups or organisations such as with credit unions. The structure and legislation took many different forms in different countries over the 20th century.

The advent of internet banking at the end of the 20th century saw a new phase in savings banks with the online savings bank that paid higher levels of interest in return for clients only having access over the web.

Developmental Banks

Development banks are specialized financial institutions providing medium and long – term credit for the creation or expansion of agriculture, commercial and industrial enterprises in developing countries such as Nigeria. They are mostly established by government. The main objective of development banks is the promotion of economic development in the economy.

The idea of setting up development banks in Nigeria was mooted after the establishment of the CBN. It became apparent that there was an urgent need for banking institutions capable of providing medium and long-term finances, to fill the gaps in the economy which the merchant banks at that time were not well – equipped to service. The gaps were specifically made up of the priority sectors of the Federal Government such as the development of our agricultural and industrial sectors. Since these areas involve large expenditures which cannot be met by the commercial banks, because of the legal constraints and regulations by the CBN coupled with the rapid development within the economy, the need to establish development banks devoted primarily to stimulate these priority sectors of the economy and concerned with the promotion and finance of enterprises by the provision of long-term and intermediate finance was accepted.

The development banks operating in Nigeria includes the Nigeria Bank for Commerce and Industries (NBCI), the Nigeria Agricultural, Co-operation and Rural Development Bank (NACRDB), the Federal Mortgage Bank of Nigeria (FMBN), and the Nigerian Industrial Development Bank (NIDB).

Functions of Development Banks

Development Banks are specialized banks which are established for specified purposes in the economy. Their functions are therefore aimed at developing those sectors which they are established for. However, they perform two broad functions which include the banking functions and the development functions.

Banking Functions

i. Development Banks Provide long-term and medium-term finance / loans for commerce, industry and agriculture as well as general development projects.

ii. Development Banks make funds available in the form of equity to development projects.

iii. They raise bilateral and multilateral loans from international aid agencies like the Noteed States Agencies for International Development (USAID), from international donor agencies like the World Bank and from their own governments.

Development Functions

i. Development banks provide promotional activities such as identifying and properly articulating investment proposals.

ii. Development Bank facilitates the establishment of institutions and enterprises which fill specific gaps in the financial system.

iii. They help to stimulate their nations' capital markets (Market for long-term loans) by selling their own stocks and bonds and / or selling and using the proceeds to invest in new enterprises.

iv. Development Banks provide their clients with technical skill and advice at the preparatory and implementation stages of projects.

v. They provide managerial assistance to their clients in project preparation and evaluation.

vi. Development Banks ensure that allocations to projects are in line with the defined economic, social and political priorities of the government.

vii. Development banks ensure efficient allocation to scarce financial resources in the development planning projects.

viii. They thus help to quicken the pace of economic development.

Microfinance Banks

A microfinance bank is a type of bank that offers small loans, or microloans, to individuals, entrepreneurs and small businesses. These banks typically function to provide opportunities to low-income regions where small amounts of money can go a long way. Simply put microfinance banks ultimately provide credit to those who are unable to access the type of capital needed to develop businesses or kick-start their entrepreneurial dreams.

The most well-known microfinance banks in Nigeria are RenMoney MFB, Page MFB, Lapo Microfinance Bank, or AB Microfinance Bank. Most microfinance banks have branches in Nigeria's biggest cities like Lagos, Abuja, Port Harcourt or Ibadan, while smaller microfinance banks primarily operate only in one city or in certain rural areas. Some microfinance banks in Nigeria are very traditional offering loans only in the microfinance bank office, while other microfinance banks offer online applications for micro loans. Some microfinance banks even send a representative to your office or home to pick up your documents that are needed to get a micro loan.

Exercises

1. What are specialised banks?

2. Explain the functions of development banks.

3. Describe and explain the functions of community banks.

4. What is the difference between a merchant bank and a savings bank?

5. Define microfinance banks and explain why it is the bank of choice for small scale entrepreneurs.

Week 9

TOPIC: Cheque – meaning and features of cheque

CONTENT

1. **Meaning and features of cheque**
2. **Types – Advantages, parties to cheque**
3. **Dishonoured cheque – why banks dishonour cheques**

Meaning of Cheque

A cheque may be regarded as a bill of exchange; the only difference is that the bank is always the drawee in case of a cheque. The Bill of Exchange Act defines a cheque as “A bill of exchange drawn on a banker payable on demand.”

From the above definition it appears that a cheque is an instrument in writing, containing an unconditional order, signed by the maker, directing a specified banker to pay, on demand, a certain sum of money only to, to the order of, a certain person or to the bearer of the instrument. The person who draws a cheque is called the ‘drawer’. The banker on whom it is drawn is the ‘drawee’ and the person in whose favor it is drawn is the ‘payee’. Actually, a cheque is an order by the account holder of the bank directing his banker to pay on demand, the specified amount, to or to the order of the person named therein or to the bearer.

A cheque

Features of Cheque

The essential requisites of cheque are as follows:

Must be in Writing – The cheque may be written in hand by using ink or ballpoint pen, typed or even it may be printed. But the customer should not use pencil to fill up the cheque form. Even though other columns may be permitted to be written in hand or printed or typed, the signatures should be made by ink pen or ballpoint pen by the maker.

Must be Unconditional – The order to pay the amount must be unconditional. If there is any condition imposed to pay the amount to the holder of the cheque then it will not be considered as a cheque. A cheque made payable on the happening of a contingent event is void ab-initio.

Must be Drawn on a Specified Banker – For the validity of a Cheque it must be drawn on a specified banker. If there is not mentioned in the cheque about the banker it would not be a valid cheque. In addition to it, it must contain all the three parties i.e. Drawer, Drawee and Payee.

Certain Sum of Money – It is one of the essential requirement of the Cheque that it must be payable in money and money only. If is not in term of money then it will be a valid one. The sum mentioned in it must be certain.

Certain Payee – The parties of the Cheque must be certain. There are three parties of the cheque i.e. Drawer, Drawer and Payee. In a valid Cheque the name of the must contain in other words they must be certain. It must contain an order, which must be unconditional. If any condition were imposed then it would not be a valid cheque.

Date – In a valid cheque it must be signed by the drawer with date otherwise it would not be a valid cheque. It must be written in hand by using ink or ball point pen, typed or even it may be printed as it becomes conclusive proof i.e. presumption under Section 118(b) unless contrary is proved.

Types of Cheques

1. Bearer Cheque

When the words “or bearer” appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky, this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.

2. Order Cheque

When the word “bearer” appearing on the face of a cheque is cancelled and when in its place the word “or order” is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

3. Uncrossed / Open Cheque

When a cheque is not crossed, it is known as an “Open Cheque” or an “Uncrossed Cheque”. The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

4. Crossed Cheque

Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like “& CO.” or “Account Payee” or “Not Negotiable”. A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee’s account.

5. Anti-Dated Cheque

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as “anti-dated cheque”. Such a cheque is valid upto three months from the date of the cheque.

6. Post-Dated Cheque

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque.

7. Stale Cheque

If a cheque is presented for payment after three months from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank.

Advantages of Cheques

The main advantages of using cheques as a way of paying for goods and services are the following;

- Safe: only the named recipient is able to cash the cheque at a bank or other financial institution.
- Trusted: being a method of payment that has been around for generation, people trust this traditional method of payment over online solution at times.
- Batch processed: this allows the costumers to make post dated cheques that grants them time to put funds into their accounts. This is widely used as consumers can make payments for goods and services in advance even if they do not have the funds in their accounts.
- Personalization: companies as well as business professionals are able to personalize and customize cheques according to their companies, incorporating logos, trademarks and designs.

Parties to a cheque

There are three parties to a cheque namely:

1. **Drawer**

Drawer is the party who draws the cheque upon a specified banker. He is the maker of the cheque. He is the account holder who draws the cheque for drawing money from his bank account. He is the person who issues cheque directing the bank to pay a certain sum of money to a certain person or to the bearer. Thus, the person who signs the cheque is known as drawer.

2. **Drawee**

Drawee is the party upon whom the cheque is drawn. Drawee is the bank. It is the party to whom the drawer gives order to pay the amount to the person named on the cheque or his order to the bearer. When the bank follows the order and pays the amount of the cheque then the cheque is said to be honored. In case of refusal of the order, the cheque is said to be dishonored.

3. **Payee**

Payee is the party who presents the cheque for payment. He is the person who receives money from bank. He is the party in favor of whom cheque is issued. The payee is the person whose name is mentioned on the cheque. If the cheque is made payable to self, the drawer himself becomes the payee.

Dishonoured Cheques

The bank should pay the amount mentioned on the cheque as soon as it is presented. If the amount of cheque is paid by the bank to the payee, the cheque is said to be honored. If the bank refuses to pay the amount of cheque, then the cheque is said to be dishonored. Thus the dishonored of the cheque means the refusal by the bank to pay the amount of cheque to the payee. It is a condition in which the bank does not pay the amount of the cheque to the payee. In fact, when the drawer draws the cheque without following all the rules of issuing cheque or when he/she draws the cheque exceeding the bank balance then the bank dishonors the cheque.

Why Banks Dishonour Cheques

There are various reasons why bank cheques are not being accepted from drawers:

1. **Insufficient Fund:** When the amount written on a cheque is more than what the drawer has in his account in the bank.

2. **The Death of The Drawer:** If the bank recieves information of the death of its customer, the bank will not honour any cheque presented on the account of the dead customer, until further notice.

3. **Irregular Signature:** If the signature the drawer signs on the cheque differs from the specimen signature in the bank.

4. **Non-Existing Account:** Sometimes, swindlers who have no bank account but possess false cheque books may issue cheque to those whom they have swindled.

5. **Bankruptcy:** If one is judged by a law court to be unable to pay his debts in full, the bank will dishonour any cheque presented on behalf of that customer.

6. **Frozen Account:** If court orders or a military government decrees that some people's account be frozen, the bank must definitely dishonour all cheques bearing the account's numbers.

7.**When There is Attention:** If anything is cancelled on a cheque, the bank will dishonour such a cheque, except the drawer signs his signature above or under the altered word.

8. **A Post-Dated cheque:** If this is presented for payment, the bank will dishonour such a check.

9. **A Stale cheque:** A cheque that has been delayed for more than six months of the date written on it, if presented for repayment must be dishonoured by the bank.

10. **If There Is A Difference Between The Amount Written In Words And That in Figures:** If for instance, the drawer writes thirty dollars only in words and $20 in figure.

11. **When Payment is Stopped:** If the drawer asks a bank not to pay a cheque already issued.

Exercises

1. Define cheques as bill of exchange.

2. State and explain four (4) functions of cheques.

3. Write short notes on five (5) types of cheques.

4. List six (6) advantages of cheques.

5. Give five (5) reasons why a bank can dishonour a cheque