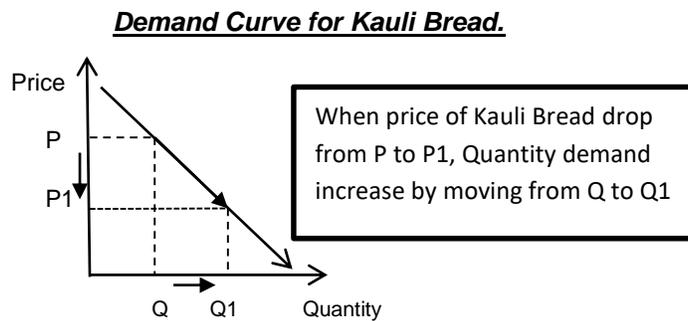


Continued: **Demand**

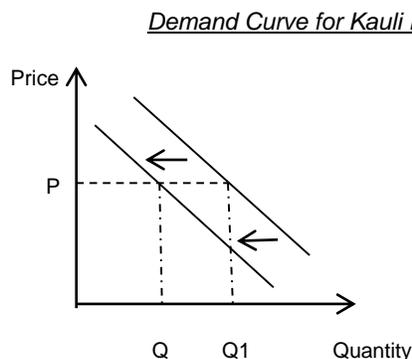
INFLUENCE ON DEMAND FOR GOODS and SERVICES

5. **PRICE** – price is the most important factor affecting demand for the given commodity. As **price decrease, quantity demanded rise due to increase in the satisfaction level of consumers. Example**



6. **Advertisement** - If an advertising campaign is unsuccessful, it can decrease demand for a product or service.

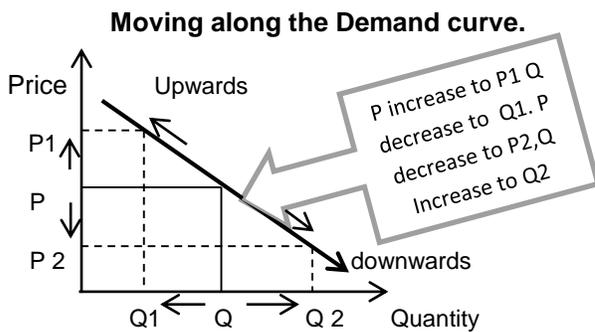
For example, if the ad misrepresents the product or sets unrealistic expectations, the campaign can have negative results on the business.



Things to be remembered:

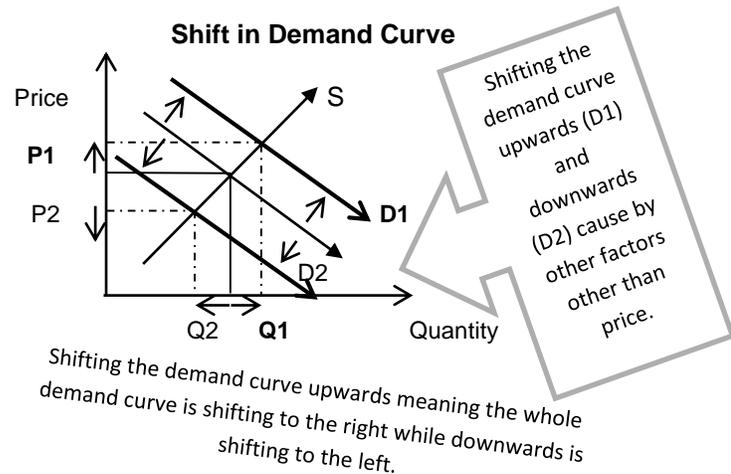
Illustrate a movement along the demand curve and shift in demand curve.

Demand Curve is a graph, indicating the quantity demanded by the consumer at different prices. The movement in demand curve occurs due to the change in the price of the commodity whereas the shift in demand curve is because of the change in one or more factors other than the price.



Change in price lead to a change in Quantity (less or more) along the same demand curve

Downward movement along the demand curve is called extension of demand, while the upward movement as contraction of demand.



CONSUMER DECISION MAKING

CONSUMER:- a person who buys and uses goods & services.

**recall the concept of CHOICE and OPPORTUNITY COST*

Limited resources are our personal means, we have limited means in relative to unlimited needs and wants, therefore we need to make decisions (choice). So every choice has an opportunity cost.

In economics, it is important to know that people have different values. These values are influenced their way of life (how they do things) and their decision making .

The factors that affect decision making (For consumer demand)

- Age and experience

- Wealth and income level
- Religious belief
- Culture
- Gender
- Family background and upbringing
- Status in the society

The need for good effective decision making rests on the fact that we cannot have everything due to the problem of scarcity. However, good decision making will reduce opportunity cost.

The appropriate procedures for making good effective economic decisions.

STEP 1: SET THE GOAL :- *what needs to be achieved.*

STEP 2: IDENTIFY OBSTACLES FOR ACHIEVING THE SET GOAL:- *list of items that will make it difficult for us to achieve our goal.*

STEP 3: IDENTIFY ALTERNATIVES:- *list of ways that will get us through the identified obstacles.*

STEP 4: RANK ALTERNATIVES:- *put the identified ways in order of effectiveness (from best to worst)*

STEP 5:- DECIDE ON THE BEST ALTERNATIVE:- *make the decision based on your ranking.*

STEP 6:- EVALUATE CONSEQUENCES:- *after deciding on the best alternative, list down the consequences if we are to take that option or way.*

CONSUMER SAVING

SAVING:- *is putting money aside for future consumption / foregoing present consumption so that more can be consumed later.*

Reasons for saving

- **To earn interest**
- **Safety**
- **Habitual saving:-** *It is a habit to save money out of every pay.*

- **Contractual saving** :- Consumers are contracted to save regular amount such as superannuation.
- **Special purposes**:- Consumers may save money to finance a specific event in the future such as saving to buy a new car, travel overseas etc.
- **Future needs and wants**
- **Surplus money** (left over from spending)

Factors will affect consumer saving (how much is saved)

- a. Interest rate:** the higher the interest rate , the more money consumers will be willing to save.
- b. Inflation rate:-** when inflation is high, consumer will save less as consumption spending will be high.
- c. Level of income:-** when income level is high, more will be saved.

The factors affecting the interest rate on saving

- 1. Term:-** the longer money is saved the more interest will be earned.
- 2. Risk:-**The greater the risk the greater the interest received to encourage saving
- 3. Economic climate:-**When the inflation is high, interest rate are high. When the inflation is low, interest rate is low

- **People are discourage to save in time of high inflation.**
- 4. Amount :-**Banks often offer a higher rate of interest as your bank balance increases.

Methods of Saving

- 1. Demand deposit:-** the money deposited in your cheque account and you can withdraw your money whenever you need it.
- 2. Term deposit:-** mean you save your money for a set time(for eg 1 year) so you can't withdraw your money until the agreed time
- 3. Superannuation:-** a saving scheme designed to pay an income to people after they retire.

4. Life assurance:-is a means of saving for retirement as well as financial protection should the insured die.

REVIEW QUESTIONS

1. Rearrange the following into their proper order in relation to steps involved in the process of making economic decisions. Write the appropriate number in the spaces provided below.

1. _____ Identifying alternatives
2. _____ Deciding on the best alternative
3. _____ Evaluating the consequences of the alternative
4. _____ Setting a goal
5. _____ Ranking the alternatives
6. _____ Identifying the obstacles to achieving the goal.

2. Explain how the following affect your decision making.

- a. Age
- b. Gender
- c. Income level

3. Explain how time is a limited resource for you as a student.

4. Suppose you earned \$50 every weekend. You decided to buy a new shoe and a new t-shirt .So your best alternative was to buy a school bag.

Explain why you cannot be able to satisfy all your wants.

5. Identify TWO reason for consumer saving

- 1)
- 2)

6. Distinguish between demand deposit and term deposit

7. Explain clearly how an increased in interest rate would affect the level of consumer saving

CONSUMER PROTECTION

THE RELATIONSHIP BETWEEN SELF SUFFICIENCY, INCOME AND SPENDING

- Self Sufficiency is the quality or state of being able to provide everything you need, without any help from others.

Consumers Protection

- *Is the practice of safeguarding (Protect) buyers of goods and services, and the public, against unfair practices in the marketplace. In other words is the practise of protecting the consumers by using consumer's rights against unfair practise in the marketplace.*

Rights of Consumer



Consumer Protection:

- *Consumer protection is the practice of safeguarding buyers of goods and services, and the public, against unfair practices in the marketplace.*

Contract.

- *is an agreement between two parties that is enforceable by law and it must satisfy the seven principles of intention, offer&acceptance, consideration, consent, capacity, objects and form.*

The major principles of a contract

1.INTENTION :- *Both parties must be determined to form a legal relationship.*

2.OFFER and ACCEPTANCE:- *One party must have made an offer and the other accepted it . In the case buying goods from shop, the price tag is not an offer . It is only invitation.*

3.CONSIDERATION:- *Both parties must contribute something of value in the contract. For example Rome agrees to rent her house to James for \$500 per month. In this case, Rome contributes the house and James contributes \$500 per month.*

4.CONSENT:- *Both parties must freely agree to the contract. That is, neither party is forced nor tricked into the contract.*

5.CAPACITY:- *Both parties must be legally capable of forming a contract . That is, neither party is bankrupt, under age nor mentally ill (insane or drunk).*

6.OBJECTS:- *Conditions and concerns of the contract must be legal. A contract concerns illegal activities (for example to kill someone or rob a shop) is not a legal contract.*

7.FORM:- *A contract can either be formal or simple.*

Simple contracts *must have a considerations and can be written, verbal or implied such as buying on credit from retail stores.*

Formal contracts *must be set out in a deed (a written document that is signed by both parties and witnesses).*

Note the following

i.Valid contract:- *A contract that satisfy the seven principles of a contract and must be enforceable by law.*

ii.Void contract:-*A contract that does not satisfy one of the seven principles of a contract.*

iii. Invalid contract:- *A contract that does not satisfy more than one of the seven principles of a contract.*

iv. Breach of a contract:- *A situation occurs when one party does not fulfill their part of the contract. The other party can take them to court and sue them to complete the contract.*

The reasons a valid contract can be ended or stopped

- *The time period set for the contract has ended (expired)*

- *Both parties agree to end the contract before the expiry date.*

- *The contract is impossible to be completed due to factors beyond the control of both parties such as the property that was used in the contract has been burnt.*

In what circumstance a minor can enter into a contract

Minor can enter into a contract at any stage, but the person with whom they are making the contract may not be able to enforce that contract. A guarantor is often required in order to persuade someone to a contract with a minor.

For example :- *under 18 who are married/apprenticeships and life assurance policies/when approved by the district court.*

Consumer Law

1. Consumer Guarantees Act / Consumer Information Act

- *The consumer has the right to ownership of goods purchased unless they are bought on hire purchase*
- *The goods are of acceptable quality*
- *The goods are fit for the purpose the consumer tells the shopkeepers*
- *The goods fit the description*
- *The consumer will pay no more than a reasonable price unless a price has been agreed upon*
- *If the good is at fault then the consumer can ask the shop owner to do one of these three options*
 - i) *Repaired*
 - ii) *Replaced*
 - iii) *Refunded*

The reasons a shop is at fault

- *The goods are not of good quality*
- *The goods do not fit the purpose*
- *The goods do not match the description*

2) Sales of goods Act

- *This Act stated the principle of Caveat Emptor(Let the buyer beware) :- it is the buyer's responsibility to make sure that the goods being bought are not faulty and are what they wanted.*
- *This Act does give the consumer some rights if they have bought faulty goods.*

The exception to " Let the buyer beware"

- *Goods are not fit for their normal purpose eg. leaking tent*
- *Goods are not fit for a specific purpose eg. ask for glue to mend a plastic object and is sold with glue that will only work on paper.*
- *Goods do not match their description eg jacket described as being all leather, has some other fabric in it.*
- *Not acceptable quality eg medicine*

3 Hire Purchase Act

- *The ownership of the goods remain with the seller until all money owed is repaid*
- *The consumer cannot resell the goods until they are fully paid off*
- *f the falls behind in repayments, then the shop owner may take back the goods and try to sell them to get back their money. But the shopkeepers will warn the consumer before taking this action*

Advantages

- *Able to afford more expensive items*
- *Immediate usage of the good after depositing*

4. Lay-by Act

- *Lay-by is when a consumer puts a deposit on the good and pays the balance off over a short period of time*
- *Repayments do not need to be regular*
- *When the balance owing is repaid then ownership of the good passes to the consumer*

Advantages

- No interest is charged
- The good cannot be sold others
- The consumer does not have to pay extra if there are any price rises.

5. Door to door Act

Three conditions apply for the act to be effective

- The act only covers credit contracts
- The goods must be over \$20 in value
- The salesperson must not have been invite into your property by you

How to deal with door to door salesperson

- Never pay cash
- Never invite them into your property
- Don't be rushed into a sale

6. The fair trading Act

- Deals with businesses who make false description of goods they have for sale or use other deceptive methods to sell their goods.

Advantages

- Prevents businesses from misleading or lying to consumers
- Prevents businesses from forcing people to buy goods& services

REVIEW QUESTIONS

1. Define the following terms

- a) Contract
- b) Breach of a contract
- c) Void contract

2. Differentiate between formal and simple contract.

3. Identify the principles of a contract that is being referred to in each situation below.

- a) Neither party is to be tricked to sign the contract.
- b) Both parties must be determined to form a contract
- c) Both parties must contribute something in value to the contract
- d) Conditions of the contract must be legal
- e) People who are underage cannot form a contract
- f) A contract can be a simple or a formal contract.

3. Read the information below and answer the following questions.

- a) What Act allows Selu to take her washing machine back to the shop?
- b) State ONE reason in this Act that allows Selu to take back the washing machine to the shop.
- c) Give 3 options that Selu will ask the shop owner to do.

4. What is Caveat emptor?

5. a) Explain how does layby works

b) State TWO advantages of layby

-
-

6. Explain ONE circumstance under which a minor can enter into a contract

Budgeting.

- *Budgeting is the process of creating a plan to spend your money. This spending plan is called a budget.*
- Creating this spending plan allows you to determine. In advance whether you will have enough money to do the things you need to do or would like to do.

The reasons for consumer budgeting

- Live within an income
- Set priorities or making the first thing first
- Save money for a special purpose or unexpected events
- Avoid overspending and impulse buying
- Spend income wisely
- Keep you out of debts

How to prepare a budget?

Step 1: Work out your income: include only earned income as they are guaranteed to be received. Do not include unearned income such as overtime payments and remittance.

Take –home pay:- Gross earnings less taxes. It is also called Net income/ Disposable income.

Net income can either be saved or spent

Gross income :- Total income earned before taxes are deducted.

Step 2: Estimate your expenses: these can be classified into two categories

a. **Fixed expenses:** expenses that must be paid for or cannot be avoided regardless the income level like loan repayment, hire purchase, rent, insurance etc

b. **Variable expenses:** expenses that can be increased or decreased depending on income level like clothing, electricity, donations, food etc

Step 3: Estimate saving: this may include saving for a special purpose or just for unexpected future events

Step 4: Balance your budget : Add step 2 and 3 then compare with total income.

Budget deficit:- If estimated expenditure is greater than estimated revenue.

Budget surplus:- if estimated revenue is greater than estimated expenditure

Example: Use the following information to prepare a fortnight budget for Haulani family.

INCOME: Family monthly wages \$6000, remittance \$500, rent income \$400 per fortnight.

EXPENDITURE: Food \$500 per 2 weeks, electricity and water \$50 per week, church donations \$20 every Sunday, family entertainment \$40 per fortnight , loan repayment \$200 monthly, hire purchase \$100 per fortnight.

SAVING: \$80 every fortnight for unexpected events.

Haulani family Budget for fortnight.

INCOME			
Wages (6000/month / 2)	3000		
Rent received	<u>400</u>		
Total income received (fortnight)			<u>3400</u>
EXPENDITURE			
Fixed Expenses:			
<i>Loan repayment</i>	100		
<i>Hire Purchases</i>	<u>100</u>		
<i>Total fixes expenses</i>		<u>200</u>	
Variable Expenses:			
<i>Food</i>	500		
<i>Electricity & Water</i>	100		
<i>Church Donation (20 x 2)</i>	40		
<i>Family Entertainment</i>	40		
<i>Saving (for unexpected event)</i>	80		
<i>Total Variable Expenses:</i>		<u>760</u>	
Total Expenditure			<u>960</u>
Budget Surplus			\$2440.00

Consumer Protection Finances.

- *It aims to ensure that consumers has the right to: 1) receive information to allow them to make informed decisions, 2) are not subject to unfair or deceptive practices, and 3) have access to recourse mechanisms to resolve disputes.*

Important of Budgeting on Protecting Consumer Finances.

- *Creating a budget will help you figure out if you have enough money to cover your expenses, while also having enough to save or spend on something extra you may want for yourself or your family. Be sure to update your budget if you experience a change in employment or your spending habits.*

Wise Buying

- *that is when consumers making the decision to cleverly choose what to buy with his /her Budget/ spend within the income/make a budget or plan before buying.*

For example: Like the consumer should read all the information about the product. Consumers should check the quality and mark on the product. Price is reasonable or not.

Wise buying food practice includes making a shopping list and adhering to list when buying, buying foods in season, buying quality food etc

Factors that promote wise buying

Before shopping

- buy only what you really need
- shop around for the best price
- buy in bulk
- Check for the best brand

Before buying

- Check that the good is not faulty and it is what you want.(Caveat emptor)
- Check for warranty and guarantee services.

Warranty: - is a written assurance by the manufacturer that the good is as represented.

Guarantee: - means that if the good become faulty after buying , it can be repaired, replaced or money can be refunded.

- Test the good on spot
- Check for free delivery services

After buying

- Keep all source documents such as receipts in a safe place for future reference

Important of Wise Buying on Protecting Consumer Finances

CONSUMER FINANCE

CASH BUYING:-Use notes or coins to buy goods/ buying goods with money.

Advantages:

- *No interest paid*
- *Take advantage of sales or special discount*
- *No commitment to pay debts*

Disadvantages

- *Needs may not be fully satisfied*

CREDIT BUYING:-*Borrowing money or buying goods and paying for them later.*

Advantages

- *Immediate use of the goods*
- *Able to afford more expensive items*
- *Do not need to carry around large sums of cash to pay for goods*

Disadvantages

- *More cost – have to pay interest*
- *Consumers may pay more than they can afford to repay.*

Source of Credit

- *Friends and family*
- *Banks*
- *Retailers*
- *Insurance companies*
- *Finance companies*

Type of Credit

1. **Personal loan:-** *a loan lent to a consumer for the purchase of goods and services and it requires security.*

2. **Bank overdraft**:- A consumer can take out more money than they have in their bank account up to an agreed limit.

3. **Hire purchase**:- A form of credit buying where a deposit is done (down payment) , receive immediate possession of goods and make regular payment plus interest The consumer has ownership of the goods when the last repayment is made

4. **Credit card**:- A form of credit where the consumer can obtain goods or cash up to a certain credit limit.

5. **Shop credit**:- a consumer can purchase goods up to a certain limit and spread payment s out over a period of time

6. **Mortgage**:- A loan secured over property (land & building)

7. **Term loan**:- A loan for a longer term period and requires security.

8 **Lay-by**:-is when a consumer puts a deposit on the good and pays the balance off over a short period of time

INTEREST RATE



Interest rate:- is a cost of borrowing and reward for saving.

Depositors /savers:- a person who earn interest for saving or depositing money in the bank.

Borrower:- a person who pay interest for borrowing / loan money from the bank

Lender:- refer to the banks who lent out money from the saving account to borrow by the consumers and the businesses

Sources of Income

Earned Income:- income received from economic activities as a result of work done and resource ownership

Sources of Income	Definition	Example.
c)As a result of work done such as:		
i) Wages	Income from working paid on an hour	Gardener or shop keeper
ii) Salary	Income from working paid on a yearly basis	Teachers

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iii) Fees	Income received from performing a service	Lawyers, doctors
iv) Commission	Income received from selling goods or service on behalf of someone else.	Salesperson, real estate

b) As a result of resource ownership such as:

i) Rent	Income received from allowing someone to use your land or property . Landowners	
ii) Royalties	Income received from the sale of books, recording and copyright Authors ,poet	
iii) Profit	Income earned as a result of risk taking and decision making skill Business owners	
iv) Dividends	A share of a company's profit provided each year (return on investment) Shareholders	
v) Interest	Income received from saving money	Savers

2. Unearned income - Income received from non- economic activities such as

Source of income	Definition	Example
i) Gifts	Income receive from friends and relatives	Friends and relatives
ii) Remittances	Income from families and relatives overseas.	Families and relatives
iii) Legacy/ Bequest/ Goodwill/	The wealth of people who die is passed on to others	Heirs
iv)Gambling	Income from lotto, raffle, lottery etc	Anyone who is lucky lucky
v) Life assurance	Income received from an insurance policy when the insured dies.	Insured person
vi) Superannuation	Part of income is saved for retirement	Retired person
vii) Transfer payment	Income received that is not a return for a productive services such as pension and welfare benefit	Un - employment

viii) Patents
who
People who own trademark or brands e.g Coca –cola are paid by others
use them Individual or companies who developed the product.s

Factors will determine the level of income

- *Level of qualification*
- *Level of experience*
- *Nature & Importance of the job:- some jobs are very dangerous or important so higher wages must be paid to attract people to do the job.*
- *Working for longer hours (overtime)*
- *Have more than one job (secondary employment)*
- *Saving – increases your income in the future*
- *Own some resources such as land, capital etc*

Consumer Law

1. Consumer Guarantees Act / Consumer Information Act

- *The consumer has the right to ownership of goods purchased unless they are bought on hire purchase*
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 - Repaired*
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The reasons a shop is at fault

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Advantages

- *Able to afford more expensive items*
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5. Door to door Act

Three conditions apply for the act to be effective

- *The act only covers credit contracts*
- *The goods must be over \$20 in value*
- *The salesperson must not have been invite into your property by you*

How to deal with door to door salesperson

- *Never pay cash*
- *Never invite them into your property*
- *Don't be rushed into a sale*

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- *Deals with businesses who make false description of goods they have for sale or use other deceptive methods to sell their goods.*

Advantages

- *Prevents businesses from misleading or lying to consumers*
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REVIEW QUESTIONS

1. *Define the following terms*

a) *Contract -*

b) *Breach of a contract -*

c) *Void contract -*

2. *Differentiate between **formal and simple contract.** -*

3. *Identify the principles of a contract that is being referred to in each situation below.*

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- a) *Neither party is to be tricked to sign the contract.*
- b) *Both parties must be determined to form a contract.....*
- c) *Both parties must contribute something in value to the contract.....*
- d) *Conditions of the contract must be legal.....*
- e) *People who are underage cannot form a contract.....*
- f) *A contract can be a simple or a formal contract.....*

3. *Read the information below and answer the following questions.*

Selu was at the shopping center to buy a new washing machine. When she got home, she found out that she was unable to drain the water out.

- a) *What Act allows Selu to take her washing machine back to the shop?*
- b) *State ONE reason in this Act that allows Selu to take back the washing machine to the shop.*
- c) *Give 3 options that Selu will ask the shop owner to do.*

4. *What is Caveat emptor?*

5. a) *Explain how does layby works*

b) *State TWO advantages of layby*

1 -

2 -

6. *Explain ONE circumstance under which a minor can enter into a contract*

Insurance

What is Insurance

Insurance means is the contract between the insurer and the insured.

Unique Importance of Insurance;

Insurance

- *To protect the business from financial losses due to unforeseen events such as accidents and natural hazards.*

Principle of insurance

1. Insurable Interest

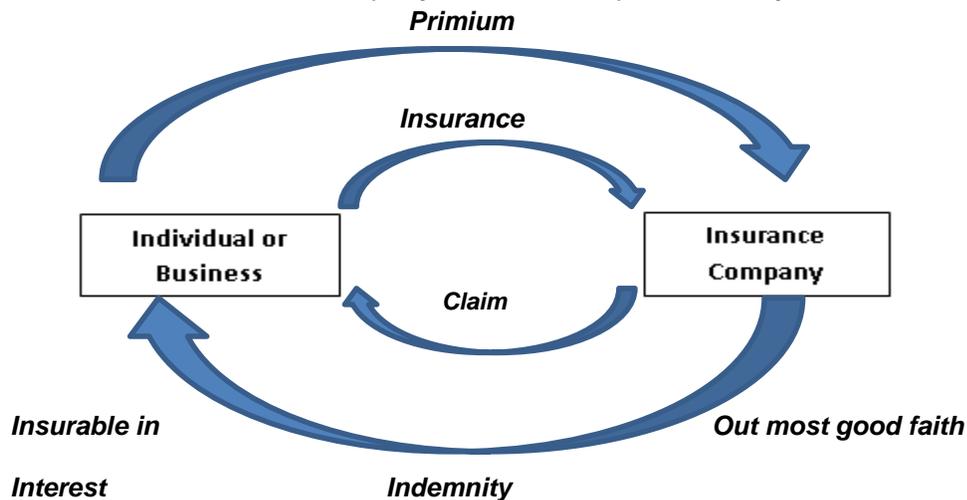
- *Means that the person or business taking out the insurance policy (the insured) must be the person who suffers a loss if the property or life is damaged or destroyed.*
- *You cannot insure someone else's property*

2. Indemnity

- *Means that the insurance company (insurer) will only pay compensation for the actual loss not the policy amount.*
- *For example if a car receives \$1000 worth of damage, the insurance company will only pay out the \$1000 actual loss, even if the policy is for \$20000.*
- *The exception to this is Life Assurance*

3. Utmost Good Faith (Uberrimae fide)

- *The insurance company relies on complete honesty of the insured.*



Terms:

- i) **Insured:-** the person who takes out an insurance policy.
- ii) **Insurer:-** the insurance company
- iii) **Insurance policy:-**the contract or agreement between the insured and the insurer for the protection
- iv) **insurance premium:-** regular payments made by the insured to the insurer for the protection. The higher the value of the property insured, the higher the risks involved and insurance premium will also be high.
- v) **Claim:-** amount paid by the insurer to the insured as compensation for any loss suffered.
- vi) **Excess payment:-** amount paid by the insured when a claim is made than the insurer will pay the balance.
- vii) **Sum assured:-** minimum amount the insurer pays out on a life assurance policy.
- viii) **surrender value:-** amount paid by the insurer to the insured when the policy is cancelled.

Types of Insurance

1. **Life Assurance** or Life Insurance:- is a means of saving for retirement as well as financial protection should the insured die.
2. **Term insurance:-**runs for a set period of time, say ten years. During the ten years you pay your annual premiums. If you die during the ten-years, your estate receives the sum insured. If you survive the ten years, you receive nothing.
3. **Endowment insurance:-**is when the policy state to pay out the sum assured plus any bonuses on the death of the insured person or when that person reaches the age of 60.
3. **Superannuation:-**a savings scheme designed to pay an income to people after they retire.
4. **Medical insurance:-**insurance protection for the cost of medical and hospital bills.
5. **Accident compensation corporation (ACC):-** is a system of insurance whereby the government pays a percentage of your earnings should you not be able to work due to an accident.
6. **Property insurance:-** insure their possessions such as house, the content of the house, and their car.

8. Motor vehicle insurance:- insure damage and theft of motor vehicles such as cars and motorbikes.

REVIEW QUESTIONS

1. a) *What is the importance of communication for a business.*

b) *With an example of communication methods, explain what is meant by External communication.*

c) *Communication can be defined with reference to direction, form and organizational. Clearly explain what each term is referred to with relation to communication.*

i) *Direction*

ii) *Form*

iii) *organizational*

2. *Identify the best Form of communication for each of the event below.*

a) *Sending original passport to Australia.....*

b) *Send a copy of birth certificate to New Zealand.....*

c) *Sending an urgent message to the principal of Vavau High School.....*

d) *Sending a small parcel to Fiji.....*

3 a) *Identify 2 roles of transport service for business.*

-
-

b) *State 2 advantages and 2 disadvantages of air transport over sea transport.*

4. *Define bank overdraft*

5. *State 2 functions of Westpac bank of Tonga*

-

6. *Explain why these following people needed the financial information.*

a) *Banks*

b) *Investors*

d) *Employees*

6. *What is the purpose of accounting to the business?*

8. *Differentiate the following pair of economic terms*

i) *cost accounting and financial accounting*

ii) *current assets and current liabilities*

9. *Identify the importance of the following financial reports*

a) *Trading account*

b) *Revenue statement*

c) *Balance sheet*

10. *Identify THREE importance of marketing services to the business.*

11. *Tonga timber ltd insures all its vehicles and buildings with the Dominion insurance company.*

a) *Who is the i) Insurer*

ii) *Insured*

b) *What is the importance of insuring the company's vehicles and buildings?*

c) *Define the following terms as they are related to insurance*

i) *Indemnity*

ii) *Insurable interest*

iii) *Uberrimae fidei*

c) *Distinguish between term insurance and endowment insurance.*

PRODUCERS' DECISIONS

PART A: DIVERSITY AND GOALS OF PRODUCERS

GOALS OF PRODUCERS

What is a producer?

- *A person who makes/produces/ creates goods & services .*

Producers are individuals, **profit –making businesses**(sole trader, partnership, company , cooperative etc) and **non-profit organizations**(church, government ministries & departments, clubs & societies, welfare groups etc) are groups or organizations that combine factors of production (productive resources) converting them into goods and services. Goods & services are then traded to consumers in the process of exchange. They have certain common goals or aims to be achieved depending on the type of goods & services produced or type of business they are doing .

Common goals of producers

1. Maximize profit. - *This can be achieved through maximizing sales and the using of the cheapest resources and technology*
2. Maximize sales revenue - *Can achieve this through selling at low prices*
3. Provide good quality products - *Achieving this goal will lead to more quality consumers, greater market power, better sales & more profit.*
4. Supplying goods at cheap prices - *Can be achieved through economies of scale and reducing cost of production.*
5. Gain market power - *Can be achieved through providing good quality product and cheaper prices.*

REVIEW QUESTIONS

Everyone is a producer and everyone is a consumer

- a) *Discuss the above statement*

b) *Differentiate between producers and consumers*

c) Give TWO examples of a good and service that is produced in Tonga and give a reason why each is produced

i) Goods 1. _____

2. _____

Reason _____

ii) Services 1. _____

2. _____

Reason _____

d) Identify 3 common goals of producers.

e) Explain how a producer can achieve each of the goals in d) above

Types of industry

In economics, production is divided into three major sectors or stages.

1. **Primary industry (Extractive industry)**:- involves businesses that extract of raw material from nature . For examples fishing , mining , farming , quarrying , forestry etc.

2. **Secondary industry (Manufacturing industry)**:- involves businesses that manufacture/convert raw material into finished goods . For example food canning, oil refining, flour mill, car assembly etc.

3. **Tertiary industry (Services industry)**:-involves businesses that provide services to other producers & consumers. For examples banking , transport, insurance, communications etc.

How primary, secondary & tertiary are related.

Primary industry relies on **secondary industry** to buy their output as well as converting them into finished goods and relies **tertiary industry** for services such as distribution of raw materials.

OR

□ **Secondary industry** relies on **primary industry** for raw materials and on tertiary industry for services and for distribution of their finished outputs to consumers.

OR

□ **Tertiary industry** relies on **primary industry** to use their service such as delivering of their raw materials and on **secondary industry** to provide them with finished goods as well as using their services such as distribution of their finished outputs to consumers.

□ In building a desk , we need ALL the factors of production . We need tools such as hammers, nails and saws. We need timber, a carpenter to do the work and a supervisor to ensure that the work as done well.

BUSINESS OWNERSHIP

Sole Trader

Features	Advantages	Disadvantages	Management	Source of capital	Example
<ul style="list-style-type: none"> • Simple & cheaper to be set up • Owned by one person • Owners make all decision • Unlimited liability:<i>-if the business fails, the owner is responsible for all the debts of the business and even can sell personal assets to pay for the debts.</i> 	<ul style="list-style-type: none"> • simple to start • owner owns all assets and profit • no conflicts of ideas since all decisions is done by the owners. 	<ul style="list-style-type: none"> • Unlimited liability • If the owner dies, the business dies as well • Owner takes all the risks • No feedback for decision making since decision is done alone by the owner. 	<ul style="list-style-type: none"> • Owner manage alone 	<ul style="list-style-type: none"> • Owner 	<ul style="list-style-type: none"> • Retail Stores • Lalita stores

Partnership

Features	Advantages	Disadvantages	Management	Source of capital	Example
<ul style="list-style-type: none"> • 2-25 partners • All partners are jointly responsible for decision making • Unlimited liability • Can have a silent or Sleeping partners:- Partners who can contribute to the capital but has no say in the decision making and running of the business. 	<ul style="list-style-type: none"> • More capital than the sole trader • Contribute more ideas to the decision making • Partners can share the risks 	<ul style="list-style-type: none"> • Unlimited liability • Conflicts of ideas between partners • Profits must be shared 	<ul style="list-style-type: none"> • 2-25 partners/ 2-more partners 	<ul style="list-style-type: none"> • Shares from partners/ Contribution made by partners 	<ul style="list-style-type: none"> • Edward and Paasi legal services • Cowley & Sons bakery

Company

Features	Advantages	Disadvantages	Management	Source of capital	Example
<ul style="list-style-type: none"> • Must complete legal procedures before it is established • Owners are called shareholders • Limited liability (Ltd):- if the company fails, the shareholders are not responsible for the debts and even cannot sell personal assets to pay for the debts of the company. (because company is a separate entity) • Profits are distributed by way of dividends. • The company is a legal separate entity:- the business is a separate body from the owners in the eyes of the law. • Shareholders elect a Board of directors to run the company for 	<ul style="list-style-type: none"> • Limited liability • Raised more capital 	<ul style="list-style-type: none"> • Very complex to run and manage • Very expensive to organize 	<p>Public Company</p> <ul style="list-style-type: none"> • Board of Directors <p>Private company</p> <ul style="list-style-type: none"> Families & friends 	<p>Public Company</p> <ul style="list-style-type: none"> Public invest mainly through buying of shares <p>Private Company</p> <ul style="list-style-type: none"> Shares from shareholders 	<p>Public company-</p> <ul style="list-style-type: none"> Tonga Power Ltd <p>Private company –</p> <ul style="list-style-type: none"> Prema& Sons ltd Si'i-kae-ola company ltd

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them. Private Company <ul style="list-style-type: none"> • 2-25 or 2-more shareholders and are mostly friends or family members. • Relies on own cash resources whereby it cannot sell shares or raise capital from the public. Public Company <ul style="list-style-type: none"> • Owners are shareholders from the general public at least 7 members. • Raise capital by selling shares to the public through the issue of a prospectus(invitation for people to invest and become shareholders of the company) 					
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Receivership:-*appointing someone or another company to continue running the business to pay off the debts.*

Liquidation:-*all the company 's assets will be sold to pay off the debts*

Insolvent:- *being unable to pay its debts*

Insolvency:- *being unable to one debt*

Features	Advantages	Disadvantages	Management	Source of capital	Example
<ul style="list-style-type: none"> • Set up directly benefit its members • Members run the business or elect a Board of directors • Financed by members 'contribution • Members share the profit 	<ul style="list-style-type: none"> • Cheaper goods and services to members • Members share the profit 	<ul style="list-style-type: none"> • By providing cheaper goods & services, profits are lower. 	<ul style="list-style-type: none"> • Members 	Member's contribution	

Key goal of the following form of ownerships

Private enterprise:- Businesses owns and runs by individuals or ownership of productive processes is by individuals which aim at maximizing profit For example Atenisi university, 'unuaki 'o Tonga Institute.

State –owned enterprise:- Businesses owned by the Government aiming to make profit ,return dividend to government and to provide goods & services in competition with private enterprise. For example TCC

Government departments:- they are to meet a specific government objectives such as community services. For example Ministry of Education, Women affairs and Culture, Ministry of health, Ministry of foreign affairs and trade, Ministry of finance and national planning etc

Non- profit organization:- not aim at maximizing profit but to provide services which cannot be provided by the private sector and the government. For example Churches, club etc

REVISION EXERCISE

Describe the characteristics of primary, secondary and tertiary sectors and analyzing the importance of each in the economy.

Adam Smith in his book, “Wealth of Nations” described a visit to a small factory making pins. One man draws out the wire, another straightens it, a third man cuts it, the fourth points it, and the fifth grinds it at the top for receiving the head.

1. Which production sector would we classify the pin-factory and justify your answer.

a) Sector

b)Reason:

2. Explain the interdependent relationship between primary, secondary and tertiary production.

3. Identify TWO factors that could affect the output decisions made by the pin-factory.

a) _____

b) _____

4. On the table below 4 different types of business ownership are listed in the left hand . You are to complete the table under the given characteristics.

BUSINESS OWNERSHIP	CHARACTERISTICS	
	MANAGEMENT	SOURCE OF CAPITAL
SOLE TRADER	ONE MANAGE ALONE	
PARTNERSHIP		
PUBLIC COMPANY		
COOPERATIVE		

5. Differentiate between the following economic terms

a) Limited liability and unlimited liability.

b) Public enterprises and private enterprises.

6. Identify TWO advantages of a company over a sole trader and a partnership .

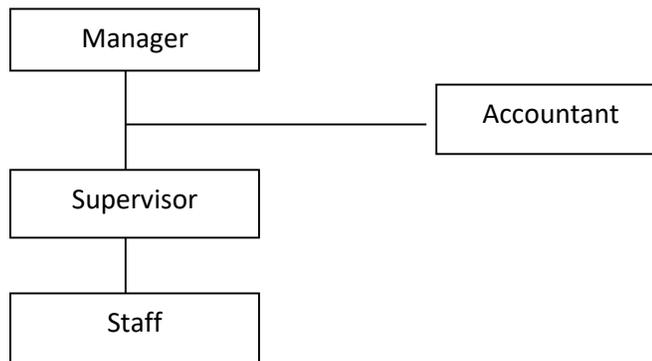
MANAGEMENT STRUCTURE AND CONTROL

The type of management control and structure of any business or organization is always displayed in the organizational chart.

Organizational charts show: - How the business is organized

- Different level of authorizes and responsibilities
- Delegation of duties:-responsibilities are being passed from those on top to those below, such as General manager to the Financial manager or sales manager.
- Who report to whom

For example:



Line Authority:- The chain of command runs from the top of the chart to the bottom. For example, the chart shows that the manager has line authority over the supervisor which means the manager can give orders to those underneath him or her (boss-worker relationship).(look at the organizational chart for ABC company ltd)

Staff authority;- the manager has staff authority over the accountant. That is, the accountant can provide useful financial information to the manager, but the accountant cannot issue orders to the supervisors. The accountant is only employed to offer specialist.

Efficient management of businesses rely heavily on good communication, good personal relationships and sound internal control

Internal control

- Methods used by a business to safeguard assets and ensure that accounting information is accurately recorded.

i) Separation of duties:- no one person does two responsibilities .For example the cashier is not doing the banking

ii) Rotation of duties:- some large companies require that staff rotate their duties within the same department . This may lead to detection of errors or frauds caused by carelessness or theft.

iii) Documentation:- all transactions should be recorded systematically.

TWO TYPES Of MANAGEMENT STRUCTURE

1. Centralized structure

- Decision making is done only by the owner or the manager
- Common in sole trade and partnership business ownerships
- Since the decision making is done by one person , the communication or flow of information is in only one direction without any feedback (one- way communication).

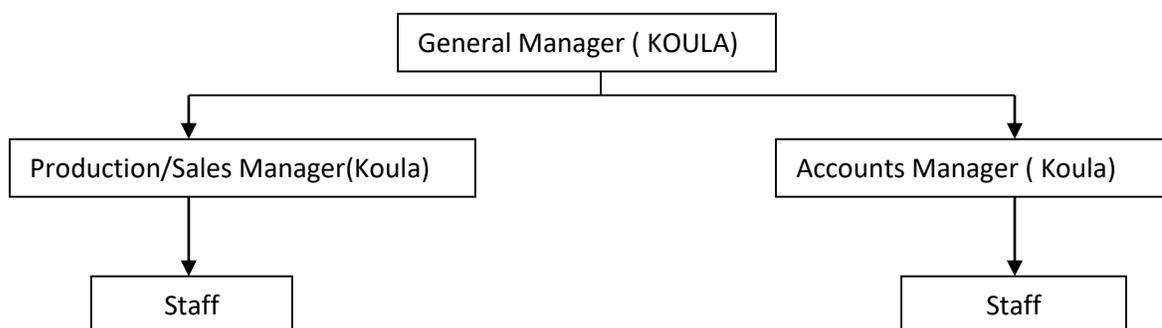
Advantages

- Decision making process is fast as there is no feedback in one-way communication
- No conflict of ideas since decision making is done by one person .

Disadvantages

- No feedback for management decisions usually results in poor decisions.
- Remove the initiatives and decision making from those in the best position to make them

For example: Organizational chart of BBC CONSTRUCTION



2. Decentralized structure

- Decision making is done by members or shareholders
- Common in companies and government departments
- Since the decision making rests not only on one person the communication or flow of information is in two directions with feedback (Two-way communication)
- There is always delegation of duties :-responsibilities are being passed from those on top to those below, such as General manager to the Financial manager or sales manager.

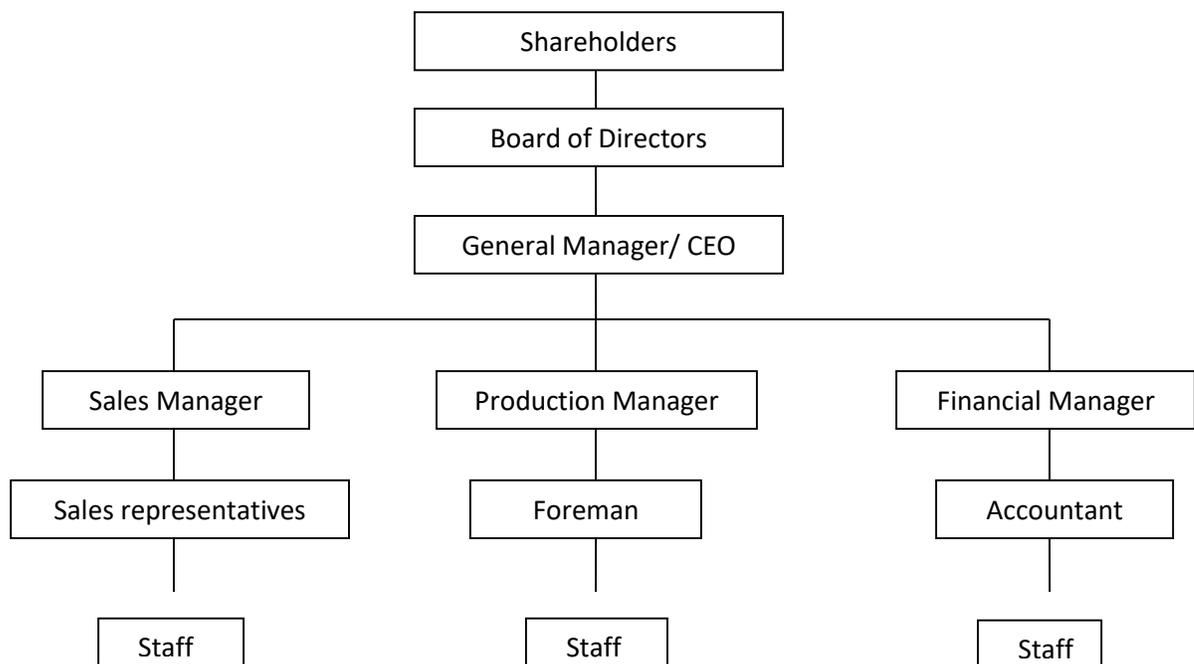
Advantages

- Feedback usually results in effective decision made
- Delegation of duties improved efficiency and quality performance

Disadvantages

- Conflict of ideas and interests when it comes to decision making
- Decision making process can be slow and time consuming
- General manager has less day-to-day control over the running of the business. For example he has to rely on his financial manager to record & report the financial information of the business, and the sales manager to manage the sales of the business etc

Organizational chart for ABC company ltd



Reason why company and government department may choose to organize its management under a decentralized structure rather than a centralized structure.

Companies

A decentralized structure can have a number of branches in different locations which are effectively they can make their own decisions to take account of local conditions and situations. This can lead to greater efficiencies in management and decision making in comparison with a centralized organizations where all local decisions must be first referred to head office for approval. This adds time to the decision making process and the head office may not have the same level of knowledge and understanding or expertise to make the best decision.

Government departments

Government department tends to be large organization spread throughout the country and performs a number of different tasks. Therefore, a decentralized structure is required so the work can be delegated to different managers at different levels around the country.

The interdependent relationship between decentralization structure and specialization

Decentralized structure will allow the managers in each departments to specialize in area they do best , they will become even better at what they do and will become even more productive.

Business failure

Small businesses here in Tonga fails due to economic and social factors

Social factors

•Customs and traditions: the traditional celebrations such as weddings, birthdays and funerals when financed by funds from the business can lead to increase personal drawings.

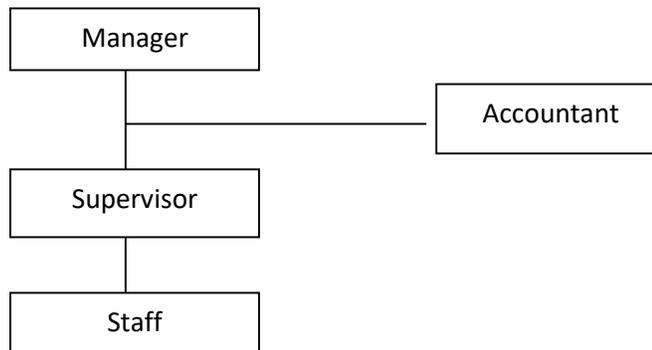
Economic factors

- Poor management skills*
- Poor resources*
- Lack of labour skills*
- Too much drawing*
- Low level of technology*

- *Domino effect:- When one major business shuts down, other related businesses may shut down as well*

REVISION EXERCISE

1. *Study the diagram below and answer the following questions.*



- a) *Explain the meaning of the following terms.*

- i) *Line authority:-*

- ii) *Staff authority*

2. .

Robin is the manager of a handicraft shop in town. The business has become very profitable so he decided to expand his handicraft shop. The expansion included the employment of the three supervisors for the purchasing department, account and marketing. Other employees recruited were Sera for purchasing department, Ruth for the marketing department and Juliet for the accounting department.

- a) *Draw the organizational chart for this business ownership.*

b) *Use the organizational chart drawn above to explain the term “ Delegation of Duties”*

3. *State ONE advantage and ONE disadvantage of centralized control .*

Advantage:

Disadvantage:

4. *Explain why company may choose to organize its management under a decentralized structure rather than a centralized structure.*

5. *Explain the interdependent relationship between decentralization structure and specialization*