

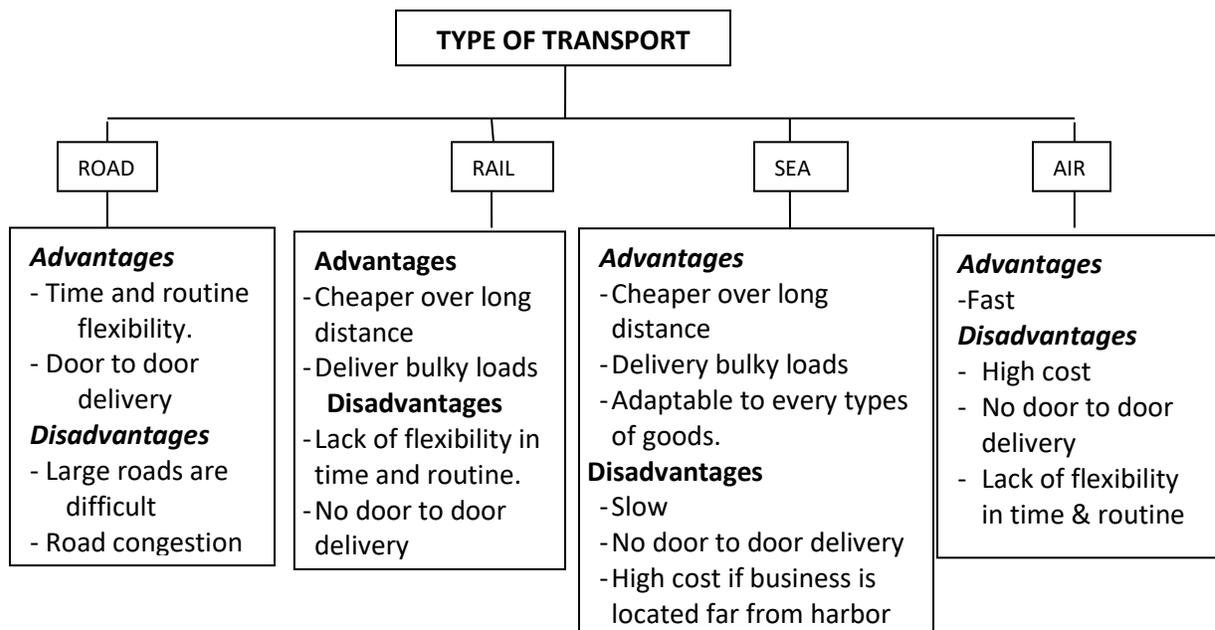
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TERTIARY SERVICES

1. Transport services

What is the importance of transport services to the businesses?

- Deliver raw materials
- Deliver goods & services to consumers
- Deliver labor to and from work



2. Communication services

Communication is the transfer of information between parties.

Importance

- Distribute information within & outside the business.
- Better understanding within the business and between the business and consumers or suppliers.

Communication can be done in an organization, form and direction.

Direction: - communication can be upward (worker to boss) or downward (boss to worker) or sideways (between workers)

Form: - communication can be written, oral, or electronic such as computers or facsimile)

Organizational:- communication can be internal communication within the business or external communication with another business.

Ways of communication

- i) **ONE- WAY communication/ CLOSED communication:** - communication where one person is passing on information to another without any input to the decision making process.
- ii) **TWO-WAY communication/OPEN communication :-** communication where both parties , manager and workers contribute to the decision making process & allows feedback and better understanding .(*this is the best way of communication*)

Types of Communication

- i) **Internal communication :-** passing of information within the business such as manager to workers etc
- ii) **External communication:** - passing of information between the business or one business to another different business such as Westpac Bank of Tonga is sending a letter to National Pacific Insurance requesting on its clients.

Forms of Communication

- i) Verbal: face to face conversation, telephone, radio, television.
- ii) Written: airmail (postal) , office memorandums, newspaper and telegrams.
- iii) Electronics: email, facsimile, courier, text.

3. Financial services

Importance

Businesses need finance for the following reasons:

- Begin a business
- Maintain sufficient cash flow
- Expand the business
- Buy or maintain fixed assets and stock

Source of Finance

Within the business:- Owners invest extra capital

- Sell some of its assets
- Retained earnings
- Shares from shareholders

Outside the business:- loan from commercial banks

- Buying goods on credit from other businesses

Types of Finance

1. **Bank overdraft**:- bank allowing the business to withdraw funds from cheque account in excess of its balance
2. **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 until the balance is fully paid then claim ownership over it .
3. **Mortgage**:- borrowing money from banks secured with business properties (valuable fixed asset)
4. **Debentures**:- a form of business borrowing from the public secured against the assets of the business. Usually interest is lower than overdraft and term loans.
5. **Lease**:- Instead of buying fixed assets(vehicle, land, buildings) businesses can just rent or hire that particular item for use within a particular period of time
6. **Retained profit**:- Part of profit not distributed as dividends to shareholders.
7. **Bank loans**:-borrowing money from banks and pay back regular payments with interest.
8. **Loan from the owner**: Cheapest method of finance. Common in sole traders and partnerships. Usually interest rate is very low (or no interest at all) and payments can be very flexible.

4. Banking services

The functions/ roles of Registered banks (Commercial / trading banks)

For example ANZ. Westpac of Tonga, MBF

- Provide security for business funds and valuable documents
- Provide finance through overdrafts ,loans & other credit facilities
- Offer financial advice to household and business as well
- Exchange foreign currency
- Provide travelers' cheque and money transfer both local & international
- Allow saving

The functions of Reserve Bank (Central bank)

For example Tonga National Reserve Bank

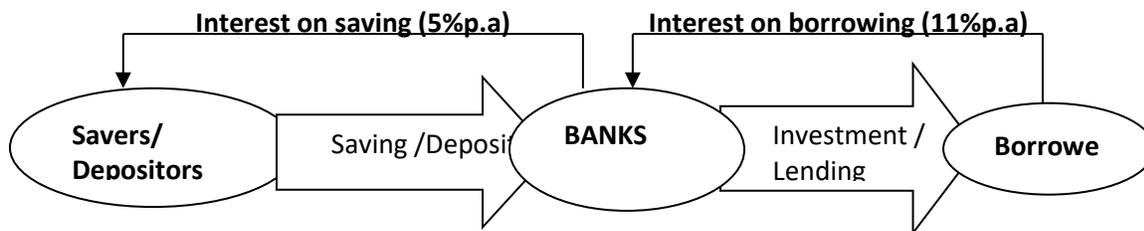
- Act as a bankers of government and commercial banks
- Issue notes and coin
- Set interest rate
- Control money supply
- Advice Minister for finance on monetary policies

The functions of Tonga Development bank

- Lend money for development projects
- Transfer currency
- Offer financial advice to businesses, households and exporters.
- Offer loan
- Operates overdraft
- Allow saving

INTEREST RATE

Interest rate:- is a cost to borrowers and a reward to depositors.



Banks pay savers interest for using their money for lending. Borrowers on the other side pay interest to banks for borrowing funds. Interest on borrowing is always greater than interest on saving so that banks can maintain profit.

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. **Consumers** can also be a lender when he/she saves by depositing money at the bank

5. Accounting services

The purpose of accounting to business is to **record** and **report** financial information of the business to its interested parties.

The role of an accountant is to **record**, **report** and **interpret** financial information for effective decision making

Users of Financial Information

- a) Owners/ Shareholders/ Investors:- is their investment in the business secure?
- b) Banks/ Creditors:- Can the business pay them back? Can the business be given further credits or loan?

- c) Employees:- is their job secure? Is there any chance of pay rise?
d) Government:- How much tax revenue to collect from businesses profit?

Importance of the following financial reports

1. **Trading account**:- to know whether the business is gaining a gross profit or gross loss from its major Trading activities.
2. **Profit & Loss account / Revenue statement/Statement of financial performance**:- to know whether the business is making a net profit or net loss after all expenses are being paid.
3. **Balance sheet/ Statement of financial position**:- shows how much the business OWNS(assets) and how much it OWES to outsiders(liabilities) and the owner(owner's equity).

Examples of Financial Reports (for a Sole trading business)

** The financial year for the financial report above is 1st July 2006 to 30th Jun 2007*

(Fiema'u ke oange kihe kau leka ha fully classification of a balance sheet and a revenue statement ke nau sio kiai)

The importance to maintain an accurate financial records

- Maintain controls of transactions
- Calculate and know profit and losses
- Calculate tax liabilities
- Keep track off debts
- Avoid frauds

Importance terms

Cost accounting:-Calculating actual costs of production to determine selling price of goods & services.

Financial accounting:- Preparing financial reports to determine the financial performance and financial position of the business

Taxation accounting:- Monitor how much tax to be paid to the Inland Revenue Department.

Management accounting:-Assist in daily operation of the business

Auditing accounting:-Checking the accuracy and reliability of financial reports prepared by the accountant.

Drawings:-Cash or goods taken by the owner for his or her personal use.

Current Assets:- Items of value owned by the business that can be converted into cash within the current accounting period. For example debtors, cash at bank, inventories at the end etc.

Fixed (Non-current) assets:- Items of value kept and use by the business to generate future revenue. For example vehicles, buildings, furniture etc

Current liabilities:- Amount owed to outsiders that must be paid within the current accounting period. For example creditors, bank overdraft,etc

Non-current (Long-term) Liabilities:- Amount owed that can be paid over one accounting period. For example

Mortgage, long-term loan etc

Working capital:- Net amount of funds available to meet business obligations in the next accounting period/ Is equal to the total current assets minus total current liabilities.

Creditors/ Account payable:- those whom the business owe to.

Debtors/ Account receivable:- those who owe to the business.

6. Marketing services

Marketing refers to all actions of getting goods and services from businesses to consumers.

Importance

- Provide market research
- Provide product promotion
- Provide retail and wholesale outlets

Examples of marketing channels

- a) Producers → Importers → Wholesaler (Si'i -kae - ola) → Retailer(Chinese stores) → consumer
- b) Producer → Wholesaler → Retailer → Consumer
- c) Producer → Retailer → Consumer
- d) Producer → Consumer

7. Insurance services

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

Importance

- 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

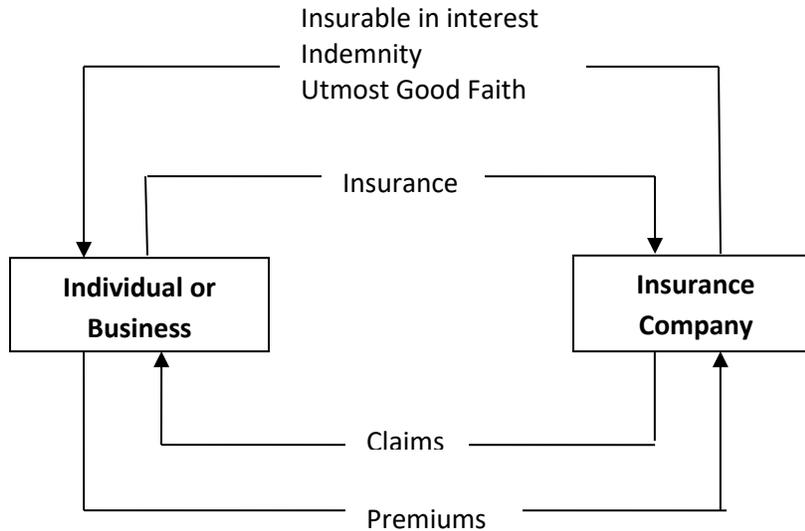
2. Indemnity

- 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 fidei)

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

How does insurance works?



Terms

- Insured**:- the person who takes out an insurance policy.
- Insurer**:- the insurance company
- Insurance policy**:-the contract or agreement between the insured and the insurer for the protection
- 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.
- Claim**:- amount paid by the insurer to the insured as compensation for any loss suffered.
- Excess payment**:- amount paid by the insured when a claim is made than the insurer will pay the balance.
- Sum assured**:- minimum amount the insurer pays out on a life assurance policy.
- Surrender value**:- amount paid by the insurer to the insured when the policy is cancelled.

Types of Insurance

- Life Assurance** or Life Insurance:- is a means of saving for retirement as well as financial protection should the insured die.
- 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.
4. **Superannuation**:-a savings scheme designed to pay an income to people after they retire.
5. **Medical insurance**:-insurance protection for the cost of medical and hospital bills.
6. **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.
7. **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

Businesses are depending on other businesses for tertiary services

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.
 - a) 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
 - c) Employees
7. 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
 - d) Distinguish between term insurance and endowment insurance.

PART B: DECISION MAKING: ECONOMIC USE OF RESOURCES

RECOURCES are **FACTOR OF PRODUCTIONS**:-are things available to produce goods & services such as land, oil, minerals, machinery etc. Resources are scarce to satisfy everyone's needs and wants.

FACTOR OF PRODUCTIONS

Production is the process of combing factors of production to make goods and services.

Factor of Productions	Factor Rewards / Factor Incomes	Examples (use Queen Salote College)
1. Land (Natural resources)	Rent	Playground, trees, gardens,etc
2. Labour (Human resources)	Wages/ salaries	Teachers, driver, Librarians ,secretaries, chaplain etc.
3.Capital (Man-made resources)	Interest	Computers, sewing machines, vehicles , stoves etc
4.Enterpreneurship	Profit	Principal

PRODUCTIVITY

Productivity is the rate of output per unit of input at a particular period of time.

$$\text{Productivity} = \frac{\text{Output}}{\text{Inputs}}$$

For example: A bakery producing 2000 breads per day with 18 workers and 2 baking ovens

$$\begin{aligned}\text{Productivity} &= \frac{2000 \text{ breads}}{18 \text{ (workers)} + 2 \text{ (baking ovens)}} \\ &= \frac{2000}{20} \\ &= 100 \text{ breads per day}\end{aligned}$$

Factors that will increase productivity

1. Improve level of technology
2. More resources
3. Improve labour skills
4. Good communication
5. Better management control
6. Healthy personal relationship
7. Diversification: Businesses can further its production into new products and not relying on a particular product.
8. Research and development: Discovery of new inventions in terms of cheaper and more efficient method of production will certainly reduce cost of production and increase production and productivity.

TWO TYPES OF BUSINESS INTERGATION

Integration: - is when two businesses willingly combine to share each other's businesses (**merge**) or **take over** (one business buying all the shares and assets of another business)

1. **Horizontal integration:**- A situation where two firms merge or one firm taking over another firm in the same sector of production
For example Molisi Tonga limited owning firms in supermarket retail/ wholesale and hardware
This is all secondary sector

Advantages

- Increase market power by reducing the level of competition
- Reduce cost of productions and achieve economies of scale.

2. **Vertical integration:** - A situation when two firms merge or one firm buying another firm in the same industry but a different sector of production.
For example Group Construction takeover Jamie Architecture. Fiesta owing a firm in production of ice cream& ice block and a restaurant & catering.

Advantages

- Secure source of supply
- Secure the market

How productivity can be affected by:

- i) **Technology**:-Better technology will increase productivity
- ii) **Division of labour and specialization**:-Breaking down jobs into smaller task will lead to a greater specialization, when each individual person are specialize in area they do best , they will become even better at what they do so it will increase productivity.
- iii) **Investment**:- More capital goods will assist labour in production and will increase labour productivity.
- iv) **Diseconomies of scale**:-As the size of production increases, the unit costs may have risen maybe being due to some management problem or communication problem. As a result, less input can be meet because of rising unit costs, hence, less can be produced per unit of input.
- v) **Economies of scale**:- As the scale of production increases, the unit cost may have reduced due to an efficient management, good communication and good personal relationships. As a result, more input can be meet because of reducing unit costs, therefore more can be produced per unit of input.

PART C: INFLUENCES ON SUPPLY OF GOODS and SERVICES

Output decisions

For every producer, deciding on the quantity of output to be produced at a particular time depends on economic & non-economic.

Economic factors

1. Cost of production:- cost of production can be further classified into
 - i. Cost of resources:- amount paid for the use of natural , human , man-made and entrepreneurial resources
 - ii. Cost of services: - amount paid for the use of tertiary services such as marketing, insurance, accounting, communication .transport, banking and financial services.
2. Level of technology
3. Labor skills
4. Amount of the resources
5. Price of the product.

Non – economic factors

1. **Environmental factors**:-Because of the great impact of increasing development on the environment (such as pollution and resource depletion) and the increasing awareness for a sustainable environment for future generations, output decisions will need to consider and ensure that goods produced are environmentally friendly. Also producers need to consider re-using and recycling.
:-producers need to look for a good location
2. **Legal restrictions**: - Producers 'activities must comply with certain laws & regulations in term of what & how to produce. This is mainly to protect the environment, resources and the welfare of the people as a whole.
3. **Trade restrictions**:- Trade between countries is restricted by laws and regulations on goods that might endanger another country in terms of diseases and pests; Quota to protect the market from being flooded and maintain prices; Tariffs to protect infant and key industries making them more competitive.

4. **Political reasons:** - Government can encourage the production of a particular product by offering subsidy and heavily taxed a particular product to discourage its production as in the case of demerit goods such as tobacco and alcohol.
5. **Culture and traditions**
6. **Religious beliefs**

SUPPLY

Supply:-refers to the quantity of goods and services producers are willing and able to produce at different price level.

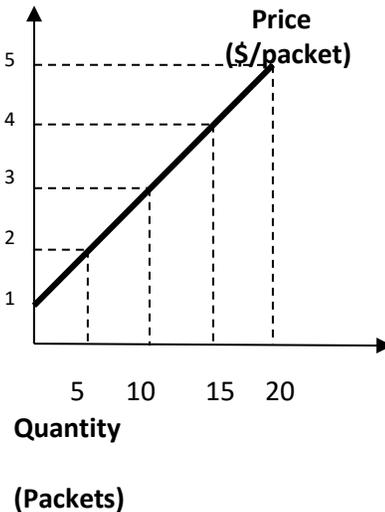
Supply schedule:- is a table showing the quantity of goods & services supplied at different price level.

Supply curve:- a graph to show the relationship between price and quantity supplied.

For example

Supply schedule for coffee

Price (\$per packet)	Qty supplied
1	0
2	5
3	10
4	15
5	20



Supply curve for coffee

The supply curve is upward or positively sloped. This means that price and quantity supplied do have a positive relationship which explains the law of supply.

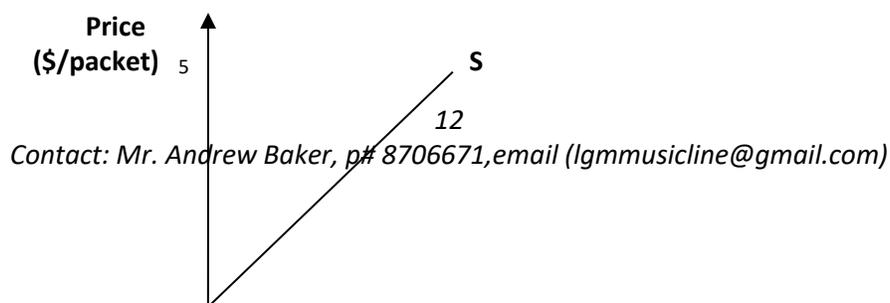
Law of supply:-as price increase quantity supplied increase and as price decrease quantity supplied decrease.

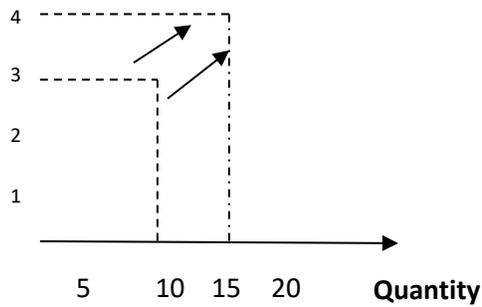
CHANGE IN QUANTITY SUPPLIED

Refers to a situation where there is a movement along the supply curve and it is caused by

- a change in the price of the marketed good
- with the assumption of **ceteris paribus** (a change in price while holding all other factors constant)

For example: An increase in price of coffee



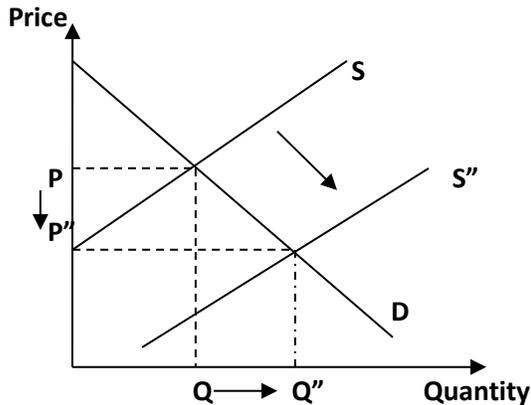


CHANGE IN SUPPLY

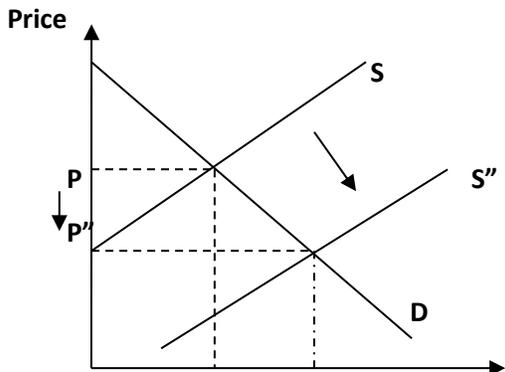
- Refer to a situation where there is a shift in the supply curve and it is caused by determinants of supply

DETERMINANTS OF SUPPLY

1. **Cost of production:** - when cost of production increase production or supply will decrease causing the supply curve to shift to the left and vice-versa.
 - If the price of labor(wages)has dropped, cost of production will be reduced and supply will increase shifting the supply curve downward to the right to S''

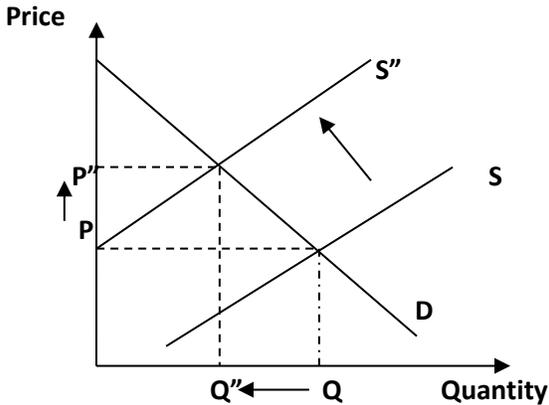


- a) **Subsidy:**-assistance offered by the government to producers of merit goods and to encourage the production of export goods.
 - a subsidy will reduce cost of production and supply will increase shifting the supply curve downward to the right .The opposite will happen if the subsidy is removed.



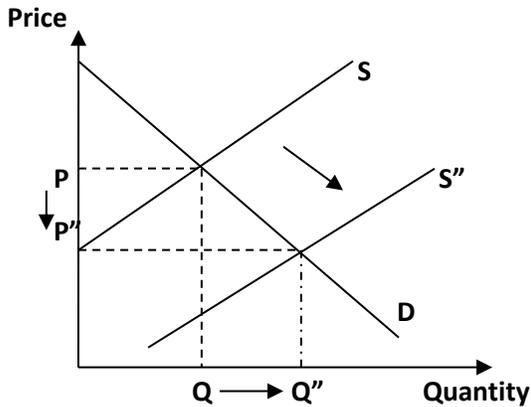
$Q \rightarrow Q''$ Quantity

b) Indirect taxes:-a percentage imposed on prices of goods & services such as custom duty, GST (sale taxes),consumption tax will increase the unit cost of production and price will be more expensive. Because cost of production has increased, supply will decrease shifting the supply curve upward to the left. **Import duties and tariffs will also have the same effect.**



2. Producer's preference:-If a producer shift his production to from coffee to peanut, supply of coffee will fall and the supply curve will be shifted to the left.

3. Level of technology:-improved level of technology will definitely increase supply shifting the supply curve to the right and vice versa.



MARKET SUPPLY

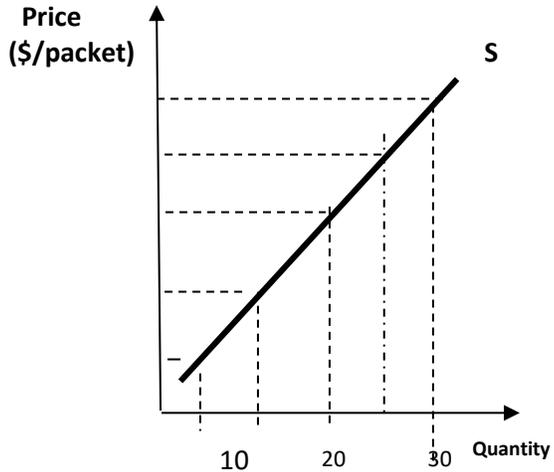
Market supply:-is adding all the individual supplies in the market at each price.

For example: Market **supply schedule** **Market supply curve for ABC**

Price (\$per packet)	A	B	C	Market supply for ABC

St Andrew High School
Economic form 5, 4TH HAND-OUT (week 1-6 – Term 2)

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2	r 4	4	3	12
3	- 3	6	5	18
4	1n 2	8	7	25
5	15 1	10	9	34



REVISION EXERCISE

1. Read the passage below and answer the questions that follow.

In relation to the production of Ola corned beef, they import raw beef from New Zealand Dairy Farmers, process them into finished output and distributed to retailers and consumers through the Pacific Distributors Wholesales. The production is controlled by the production manager with 3 other workers (average salary=\$15,000) operating the machines (cost=\$100,000). Other assets of the factory includes land -\$8,000, building -\$60,000 and vehicles-\$5,000. This is the very first corned beef factory in the kingdom and it requires the people's support in buying its product.

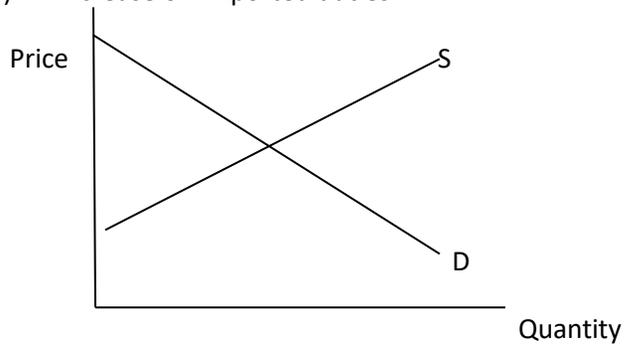
Complete the table by identifying examples of each factor of productions from the above passage.

Factors of production	Example from the passage

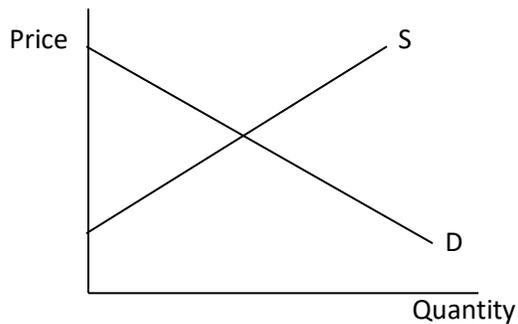
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2. Define the word “productivity”
3. Identify two factors will increase productivity.
4. Differentiate between horizontal and vertical integration.
5. Explain how productivity can be decreased by diseconomies of scale
6. On the diagram below, draw a new curve and label it clearly to show the effects of the given events on the supply of Coca Cola.

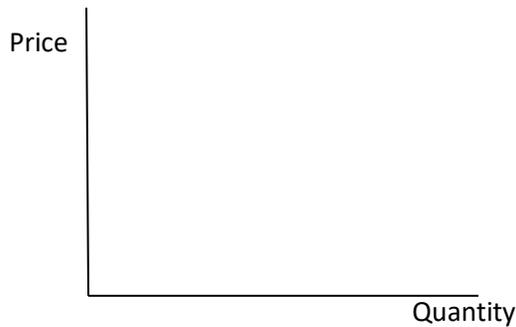
i) An increase on imported duties.



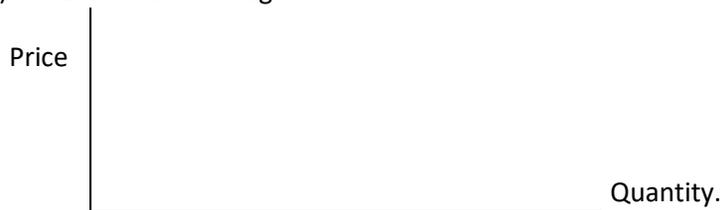
ii) The government decided to increase the amount of subsidy.



iii) An increase in price of coca cola.



iv) An increase in wage of the workers.



Ngaahi Fakatokanga.

- Koe Assessment 'e upload atu ia i he uike hono 2 'oe term 2, 'a ia koe 'aho 25 April 2022.. Koe assessment koeni, tene cover mai mei he kamata'anga 'oe hand-out na'e tufa atu ki he faka'osinga 'oe note ki he term 1. 'Aia koe hand-out 1ki he 3. 'Oku ou faka'amu ke tanaki fakafoki mai 'ae assessment koeni (due date) ki he 'aho Friday 6th June 2022.
- Fiema'u faka'eke'eke kataki fetu'utaki mai kiate au ki he fika koena 'I lalo.
- Fakamanatu atu, ko ho'o maaka 'e ma'u 'e tanaki fakataha moe ngaahi assessment he kaha'u ke hoko ko ho'o maaka fakalukufua 'I lokiako.

'E faiatu 'ae fetu'utaki fekau'aki moe polokalama Zoom 'e fakahoko 'I he term hono 2.

Malo Fanau

Andrew Baker.

St Andrew High School
Economic form 5, 4TH HAND-OUT (week 1-6 – Term 2)