

COMMERCE 421 MAY/JUNE 2006
QUESTIONS AND MODEL ANSWERS

QUESTIONS:

- 1a. Explain FIVE reasons why commerce is important in the life of a nation
- b. Explain FIVE factors that contribute to the growth of commerce in Nigeria

Answers:

- (a) Reasons why commerce is important in the life of a nation are:
 - (i) Commerce facilitates exchange of goods and service through buying and selling
 - (ii) Commerce makes storage possible through warehousing
 - (iii) Commerce provides employment opportunities
 - (iv) Commerce assist in financing businesses through banks
 - (v) Commerce increase the standard of living of a people by bringing in a variety of goods from other countries
 - (vi) Commerce makes for interdependence of nations through international trade
 - (vii) Commerce facilitates specialization and mass production of goods and services
 - (viii) Commerce aids the movement of goods and services from areas of abundance to areas where they are scarce
 - (ix) Commerce promotes rapid transfer of both oral and written messages through communication
 - (x) Commerce creates awareness for goods and businesses opportunities, through advertising
 - (xi) Commerce generates revenue for entrepreneur and for the nation
- (b) Factors that contributes to the growth of commerce in Nigeria are:
 - (i) Development of modern techniques of production: This gives rise to production of goods in large quantity and makes buying and selling possible thereby helping to promote the growth of commerce
 - (ii) Ware housing: Availability of ware housing makes it possible for goods produced ahead of time to be stored until they are needed, creates space for further production, helps to stabilize price of goods, etc. These go a long way in promoting commerce
 - (iii) Development of efficient means of transport and communication: Efficient transport system makes it possible for raw materials and workers to be carried to manufacturing centers, and goods produced to be distributed to areas where they are needed. Development of telecommunication system makes contacts in commercial centers easier.
 - (iv) Insurance: Insurance helps to reduce the risks associated with commercial activities like production, distribution and exchange of goods and services.
 - (v) Development of financial institution: The world of commerce cannot develop without money. This money that is crucial for the development of commerce is made available by banks.
 - (vi) Advertising: The availability of goods and services are brought to the notice of members of the public through advertising to buy goods and services produced, thereby promoting sales.
 - (vii) Political stability: Commerce cannot develop in a political rowdy atmosphere, but in an atmosphere devoid of political bickering, rancor and squabble, which guarantee meaningful commercial activities

QUESTIONS:

- 2(a) what is production?
(b) Explain THREE forms of production.

ANSWERS:

- (a) Production is the creation of utility/value

OR

The making of goods and services for satisfying human wants.

- (b) Forms of production are:

(i) Primary production: This is the extraction of food and materials from land and sea, e.g. mining, agriculture, quarrying, lumbering, fishing etc.

(ii) Secondary production: This is the transforming of raw materials into finished goods. OR the manufacturing and construction of raw materials into finished goods e.g. textile making, saw milling, cement making, building construction, road construction, food processing etc.

(iii) Tertiary production: This is the production of all services to satisfy human wants e.g.

(a) Commercial services, banking, warehousing, advertising etc.

(b) Direct services or personal services e.g. shoe making, gardening, house maid services etc.

(c) Indirect services are the civil and government services e.g. public teachers, police force and armed forces

OR

FORMS OF PRODUCTION ARE:

1. Industrial activities: these are concerned with the actual production of goods and services
The activities include:

(a) Extractive or primary: This is concerned with extraction of raw materials from natural resources e.g. mining, drilling, farming etc.

(b) Manufacturing/secondary: This is concerned with activities involved in turning extracted raw materials into finished good e.g. textile making, banking etc.

(c) Construction/secondary: This is concerned with activities involved with the converting of manufactured goods into other goods, e.g. building bridges, assembling cars etc.

2. Commercial /tertiary occupations: These are concerned with activities aimed at making goods and services available to consumer

Trade is buying and selling carried on through retailing and whole selling

Aids to trade are facilitating activities that make trade easy and smooth e.g. banking, transporting, warehousing etc.

3. services/tertiary: These are personal services rendered directly or indirectly for the satisfaction of human wants by professionals. Indirect service occupation includes teaching, nursing etc.
Direct service occupation includes cooking, gardening etc.

QUESTIONS:

- 3(a) List FIVE environments in which a business may operate.
(b) Explain the environments listed in 3(a) above

ANSWERS:

- (a) Environment in which business may operate are:

(i) Legal Environment

(ii) Political environment

- (iii) Economic environment
- (iv) Social/cultural/religious/ethical environment
- (v) Technological Environment
- (vi) Physical/ecological climate/Geographical environment
- (vii) Demographic environment
- (viii) Pressure group environment
- (ix) Infrastructural environment

(b) EXPLANATIONS.

- (i) Legal environment: This constitutes all the laws, decrees or edicts made by the government to regulate commercial operations. A business is required to operate within the laws of the country or face closure
- (ii) Political environment: This refers to the system of government existing and the administrative subdivisions of the country which affect commercial operations. A business is bound to adapt to the changing political situations. Political instability adversely affects commercial operations
- (iii) Economic environment: This includes the general economic conditions which affects commercial decisions such as economic growth or boom or recession, inflation, depression and change in market trends exert great impact on commercial organizations. It includes the government fiscal and monetary policies with which government uses to stimulate commercial activities. Commercial institutions watch closely details of these government fiscal and monetary policies and economic forces that affect their operations
- (iv) Social/cultural/religious/ethical environment: This is defined as the social institutions, family, religious, languages, customs, beliefs and value system prevalent in a society. This may affect commercial operations in terms of the type of products and persons available for employment.
- (v) Technological environment: This describes the current state of scientific knowledge, production process, machines and supportive systems that enable a nation to carry on its daily life. Advancement in technology such as electronic communication and computerization have affected the way commercial activities are carried out. Any business that does not adapt to such changes in technology will find itself obsolete
- (vi) Physical/ecological/geographical environment: This includes the climate conditions e.g. desert encroachment, drought, river pollution, depletion of forest and mineral resources. The physical condition in which a commercial institution must be involved in any ecological development and control of all forms of pollution and natural hazards e.g. air, water, noise, flood etc.
- (vii) Demographic environment: This deals with commercial environment which affects the population of the state, district or area within which the business operates. The composition of the population, age, sex distribution which determines the market for the business product and the supply of labor
- (viii) Pressure groups environment: The activities of interest and pressure groups, mass media, other institutions and social groups have a lot of influence in business activities of a country.
- (ix) Infrastructure environment: Infrastructural facilities such as electricity, roads, railways, air and seaports play crucial roles to the success or failure of the business firm.

QUESTIONS:

- 4(a) State FIVE conditions under which the wholesaler may be eliminated
(b) Discuss FIVE functions of the wholesaler

ANSWERS:

- (a) Conditions under which a wholesaler may be eliminated are:
- (i) Where perishable goods are involved
 - (ii) Where manufacturers have well branded goods and can deal directly with customers
 - (iii) Where the goods are of a technical nature requiring well qualified technicians for sales, installation, advice and service
 - (iv) Where customers order to specification
 - (v) Where the turnover rate is low
 - (vi) Where there are large single retailers like the cooperative societies and customers with enough capital to deal directly with manufacturers
 - (vii) Where goods can be sold by mail order system
 - (viii) Where the manufacturer has his own retail outlet
 - (ix) Where the manufacturer wants to maintain retail price
- (b) Functions of a wholesaler are:
- (i) He provides warehousing facilities/storage/stability of prices
 - (ii) Buys and breaks bulk
 - (iii) Gives trade information
 - (iv) Grants credits to the retailer and manufacturer
 - (v) Carries the research for the retailer and manufacturer
 - (vi) Undertakes some services like packaging, branding and standardization of goods
 - (vii) Provides advertising facilities
 - (viii) Sometimes provides storage facilities
 - (ix) Provides insurance facilities

QUESTIONS:

- 5(a) Explain FIVE services NIPOST renders to the public
(b) Discuss FIVE advantages of using courier service

ANSWERS:

- (a) Services which NIPOST renders to the public are:
- (i) Mail post: First class and second class mail including air mail services
 - (ii) Parcel post: Parcels are handled in the NIPOST
 - (iii) Business reply service or Free post:
 - The addressee is able to send reply without incurring any expenses
 - The normal postage for this service is prepaid by the user
 - It is mostly used for advertisement
 - (iv) Private box and mail bag.
All letters addressed to the business man are placed in a numbered private box, until they are collected
 - (v) Licensing of Franking machines: Firstly recorded impressions and the amount of postage where there is considerable quantity of mail to be stamped and posted.
 - (vi) Redirection of mails: Where the addressee changed his address
 - (vii) Post restante:

- By travelers who have no fixed address for receipt of parcels or correspondences
 - The postal packets are kept in NIPOST until they are collected
- (viii) Registration of letters:
- To ensure the safety of the mail; receipts are obtained every time the letter changes hand.
 - The addressee must sign for the parcel when it is delivered to him.
- (ix) Recorded delivery: For parcels that are important but not financially valuable.
- To ensure that the sender is given evidence of delivery of the mailed parcel
- (x) Express delivery service (Expedited Mail Service) EMS.
- Letters and parcels are conveyed specially to the addressee immediately on arrival at NIPOST
 - Handed over at the counter to the NIPOST official to deliver.
- (xi) Payment functions:
- Money order- Means of payment for mail order business through the NIPOST.
 - Cash on Delivery (COD)
 - Provided to assist the mail order delivery
 - It provides a safe guard to both sellers and buyers.
 - Sellers do not tie up in bad debts, and the mail order customers have the goods as soon as they pay.

Postal order:

- Issued for fixed amount and used for payments
- May be crossed for payment into the bank account
- Valid for six months.

Postage Stamps:

Used for payment of little debts.

- (xii) National Giro: Payment is effected by making the payment.

(b) Advantages of using courier service.

- (i) Courier service provides safe and fast delivery of mails and parcels
- (ii) Courier services are reliable
- (iii) To avoid misconduct and mishandling, courier services send their personnel to the client to collect the mail or parcel and when delivering, the customers sign the register as evidence of delivery.
- (iv) Courier services undertakes air, cargo and bulky shipments of commodities
- (v) Courier services are personal and cordial
- (vi) Courier services provides a lot of employment opportunities
- (vii) Courier services are rendered in many parts of the country including rural areas.
- (viii) Longer hours of services (twenty four hours of service).
- (ix) To make sure that mails and parcels do not miss in transit, very important ones are insured
- (x) Courier services render door-to-door courier services
- (xi) Quite decisions are taken because it is an independent organization.

QUESTIONS:

- 6(a) Explain FIVE reasons why life assurance policy may be taken
- (b) Describe FIVE insurance policies that a large departmental shop owner may take

ANSWERS:

- (a) Reasons why a life insurance policy may be taken are:
- (i) As a provision for the dependence for the assured
 - (ii) In order to obtain lump sum after retirement
 - (iii) As a protection for old age
 - (iv) As part of people's investment if it is with interest
 - (v) As a security for loan obtained or houses purchased
 - (vi) As assurance and motivation to workers
 - (vii) It assures a pattern of a firm that his capital will be repaid when he die
- (b) Insurance policies that a large departmental shop owner may take are:
- (i) Motor vehicle insurance:- To avoid careless driving, protect road users, accident, damage, loss etc of motor vehicles. It could be third party or comprehensive policy.
 - (ii) Fire insurance:- To cover risk associated with fire outbreak that may damage building, factories, shops, stocks, machines etc.
 - (iii) Fidelity guarantee insurance:- To guard against possible loss of money through embezzlement or misappropriation of funds by their fraudulent employees in positions of trust
 - (iv) Burglary, theft and robbery insurance:- To cover against possible loss resulting from breaking and entering of shops, dwelling houses, theft or larceny etc. by thieves or robbers
 - (v) Accident insurance:- To cover personal accident, sickness, employers liability, accident to properties, etc.
 - (vi) Consequential loss insurance:- To cover loss of revenue or profit
 - (vii) Bad debt insurance:- To guarantee, to protect the firm or owner against bad debts

QUESTIONS:

- 7(a) List FIVE factors to be considered by banks before granting credit to customers.
(b) Discuss FIVE functions of the central bank of Nigeria(CBN)

ANSWERS:

- (a) Factors to be considered by banks before granting credits to customers are:
- (i) The type of account the customer operates
 - (ii) The amount involved.
 - (iii) The past financial dealings of the customer with the bank
 - (iv) The purpose for which the loan will be used
 - (v) The collateral security offered
 - (vi) The period of repayment
 - (vii) The customers referee
 - (viii) The earning power of the borrower
 - (ix) The source of repayment
 - (x) The present government policy on banks' lending
- (b) Functions of the central bank of Nigeria :
- (i) Issuing of currency: It is the only authority empowered to issue coins and currency notes in the country. It also circulates them through other banks.
 - (ii) The government's bank: It is responsible for the banking of the government revenues. It also lends money to the government when the need arises.

- (iii) The banker's bank: It is the banker to all commercial banks in the country. All commercial banks have account with it.
- (iv) Manages national debts: It is responsible for paying interest on external and internal loans. It is in charge of loans repayments and debt rescheduling.
- (v) It is the lender of last resort: It acts as lender to commercial banks and other financial institutions in a period when there is a high demand of money from customers.
- (vi) Implements government policies: It controls inflation when necessary through implementation of government fiscal and monetary policies
- (vii) Foreign exchange: It controls the foreign exchange of the country especially when the country is faced with balance of payment problems
- (viii) Controls commercial banks: The central bank controls the credit policy of the commercial banks through the use of any of these methods- Moral situation, the open market operation, the bank rate and special directives.
- (ix) Represents the nation in international monetary conferences, World Bank, IMF, etc.

QUESTIONS:

8(a) Explain the meaning of the following:

- (i) Balance of trade
- (ii) Balance of payment
- (iii) Discuss FOUR ways an adverse balance of payment can be corrected.

ANSWERS:

(a) The meaning of the following

- (i) Balance of trade is the difference between export and import of tangible goods also known as visible items of foreign trade for a country within a given period. This balance may be either favorable or unfavorable. Favorable balance of trade occurs when export of visible items are greater or exceed the import of the visible items. Unfavourable balance of trade occurs when export of tangible goods is less than the import of tangible or visible items.
- (ii) Balance of payment is the difference between the total amount of export and import of both visible and invisible goods and items within a given period for a country. This balance may be favorable or unfavorable. Favorable balance of payment occurs when total receipts are more than total payment. Unfavorable balance of payment occurs when total receipt are less than total payment. It is also called adverse balance of payment

(b) Ways through which an adverse balance of payment can be controlled are :

- (i) Increasing export: An increase in production in the export sector will increase the countries exports earning and will affect the import bills
- (ii) Decreasing import (import substitution through local industries and imposing high tariffs). Any country facing the problem of an adverse balance of payment will have to restrict import so as to reduce the peoples demand for import and thus cut down on high bills of import
- (iii) Exchange control regulations: An introduction of import exchange regulation will aim at controlling the amount of foreign exchange that can be made available for a countries citizen for their transaction overseas
- (iv) Borrowing: Loans may be taken by the country to finance mainly imports of capital, equipments and raw materials in other to increase production in the home industries for export.

- (v) Devaluation: This is a situation whereby the value of a country's currency is reduced and made cheaper than other countries. By so doing, import materials will become costlier than locally made goods. There will therefore be an increase in the demand for export
- (vi) Depletion of foreign reserves: Part of the country's goods, reserves and securities may be sold in order to normalize the adverse balance of payments.
- (vii) Acceptance of gift or technical or personal aids
- (viii) Deflationary measure: A country may decide to reduce the quantity of money in circulation so that its citizens do not have much money to finance consumption of goods and services

QUESTIONS:

- 9(a) Explain FIVE factors to be considered in the choice of transport for goods
- (b) Discuss FIVE functions of transport to commerce

ANSWERS:

- (a) Factors to be considered in the choice of transport for goods
 - (i) Cost : No matter how advantageous any transport may be, its cost plays a crucial role in determining whether it will be chosen for the transportation of goods and people
 - (ii) Distance: Means of transport used in transporting people or goods within a country might not be the same when another country is involved because of distance
 - (iii) Nature of goods: Bulky goods are better transported through ships while fragile and lighter ones are good for aero plane
 - (iv) Destination: Some places like rural areas do not enjoy the services of other means of transport other than transport by road. Therefore, people living in those places have no choice or means of transport than road
 - (v) Degree of urgency: Air transport is the best means of transporting urgently needed goods
 - (vi) Value of goods: Valuable goods are mainly transported through means of transport that is safe and faster
 - (vii) Safety: This is taken into account in choosing any means of transport.
 - (viii) Convenience: Many people choose airplane as a means of transport because of the degree of convenience
 - (ix) Speed: When transporting perishable goods such as frozen fish, fruits, and vegetables etc. the speed of the means of transport to be used is seriously considered.
 - (x) Instruction from the owner of goods: Owner of goods may instruct that the goods should be transported through a particular means of transport
 - (xi) The social class of passenger: Many people nowadays consider aero plane as a status symbol and therefore choose it as a means of transport in order to boost their ego
 - (xii) Time: The time and period one wants to travel have a lot to do in determining the means of transport one has to choose. Some means of transport are not available at particular times of the day and some period of the year

- (b) Functions of transport to commerce are:
 - (i) Transport facilitates quick and efficient distribution of goods in the country
 - (ii) Promotion of trading activities between parts of the country
 - (iii) Facilitates efficient movement of production resources
 - (iv) It increases the efficiency of productive units in a country
 - (v) Transport encourages the development of rural areas
 - (vi) It leads to economic growth and development of a country

- (vii) It widens the market for the sale of goods and services
- (viii) Transport prevents wastes because perishable and surplus goods will get rotten where they were produced if efficient transport fails to exist.
- (ix) By making goods and services from other part of a country and other country available, transport helps to improve the standard of living of the people of a country
- (x) Transport encourages trade between one country and another

QUESTIONS:

- 10(a) What is advertising?
 (b) state SIX advertising media
 (c) Explain FOUR advantages and TWO disadvantages of advertising

ANSWERS:

- (a) Advertising is a paid form of non-personal commercial means of bringing the existence of production of new goods and services to the knowledge of members of the public and to persuade them to buy and use the goods and services
- (b) Advertising media are:
- (i) Radio
 - (ii) Television
 - (iii) Newspapers
 - (iv) Magazines and journals
 - (v) Hoarding
 - (vi) Cinema
 - (vii) Catalogue and price list
 - (viii) Leaflets, handbills and circular
 - (ix) Mobile shops and loud speakers
 - (x) Window display
 - (xi) Trade fair and exhibitions
 - (xii) Free samples
 - (xiii) Miscellaneous
- (c) Advantages of advertising are :
- (i) Advertising arouses consumer's interest in particular product advertised
 - (ii) It increases production as a result of increase in demand and lead to mass production
 - (iii) It leads to increase in the quantity of goods supplied to the market as a result of increase in production
 - (iv) Consumers will benefit by paying less
 - (v) Advertising makes the existence of goods or the introduction of new line of product known to the public
 - (vi) Advertising leads to the profit of firms
 - (vii) The profit made by firms helps them to embark on expansion processes
 - (viii) Advertising creates employment opportunities which directly or indirectly helps a firm to expand
 - (ix) Successful advertising may lead to monopoly which makes a firm to derive the advantages of monopoly
 - (x) Advertising encourages competition among firms which leads to increase in the quality of goods and services

- (xi) In a bid to advertise their products to greater members of people, firms sponsor selected radio and television programmes to the benefit of the people
- (xii) Advertising contributes to increasing the general standard of living of the people through the introduction of products, reducing the cost of goods, increase in production of supply
- (xiii) Mass media gain through increase in their revenue from advertisers
- (xiv) Advertising helps to give security to employees of firms and confidence to entrepreneurs through increase in demand and supply

Disadvantages of advertising are:

- (i) Advertising helps to increase the cost of goods sold
- (ii) Consumers bear the brunt of advertising because producers and advertiser shift the cost of advertising to them in forms of high price of goods
- (iii) Advertising contributes in making large firms to drive small firms out of production and business
- (iv) Advertising leads to monopoly in the production and supply of some goods including essential ones
- (v) It leads to scarcity of goods because few producers deliberately decrease their production when they must have created demands through advertising in order to make more profits
- (vi) If advertising leads to the driving away of small firms from business, it helps in causing unemployment because many workers will be retrenched from the small firm that will fold up
- (vii) Advertising contributes in denying the consumers their traditional rights of reproducing and picking the goods they want to buy
- (viii) Some advertising through persuasion mislead the consumers to buy goods that they do not need thereby wasting their money
- (ix) Advertising especially that of television interrupts nice programmes being watched by people
- (x) Advertising is expensive and causes wastage by making consumers to buy almost every new products in addition to the old ones they have in their homes
- (xi) Advertising encourages multiplication of brand names.
- (xii) It encourages people to live beyond their means, by buying goods that they cannot afford on credit or hire purchase because advertising diverts peoples' perception from the reality.