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BUSINESS ECONOMICS & COMMERCE

STUDY GUIDE FOR MODULE ONE

(A full 'Study & Training Guide' will accompany the Study or Training Manual(s) you will receive soon by airmail post.)

This Study Guide - like all our Training Materials - has been written by professionals; experts in the Training of well over three million ambitious men and women in countries all over the world. It is therefore essential that you:-

- Read this **Study Guide** **carefully** and **thoroughly** BEFORE you start to read and study Module One, which is the first ***'Study Section'*** of a CIC Study or Training Manual you will receive for the Program for which you have been enrolled.

- Follow the **Study Guide** **exactly**, stage by stage and step by step - if you fail to do so, you might not succeed in your Training or pass the Examination for the CIC Certificate or Diploma.

* STAGE ONE

Learning how to **really STUDY** the College's Study or Training Manual(s) provided - including THOROUGHLY READING this Study Guide, and the full **'Study & Training Guide'** which you will soon receive by airmail post.

* STAGE TWO

Studying in accordance with the professional advice and instructions given.

* STAGE THREE

Answering Self-Assessment Test Questions/Exercises.

* STAGE FOUR

Assessing - or having someone assess for you - the standard of your answers to the Self-Assessment Test/Exercises.

Florah John Maeda
Member 16796A, Tanzania

* STAGE FIVE

Preparing for your Final Examination.

* STAGE SIX

Sitting the Final Examination.

Remember: your CIC Program has been **planned** by experts. To be certain of gaining the greatest benefit from the Course or Program, it is **essential** that you follow precisely each one of the **SIX stages** in the Program, as described above.

STAGE ONE is your **thorough reading of this 'Study Guide'**

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ABOUT CIC STUDY and TRAINING MANUALS

A CIC Study or Training Manual (which comprises 4 or 6 Modules - the first Module of which follows) supplied by the College as part of your Course or Program is **NOT** simply a text book. It must therefore **not** be read simply from cover to cover like a text book or another publication. It MUST be **studied**, Module by Module, exactly as explained in the following pages. Each CIC Study or Training Manual has been designed and written by specialists, with wide experience of teaching people in countries all over the world to become managers, administrators, supervisors, sales and accounting personnel, business-people, and professionals in many other fields.

Therefore, it is in **your own best interests** that you use the Study or Training Manuals in the way CIC's experts recommend. By doing so, you should be able to learn easily and enjoyably, and master the contents of the Manuals in a relatively short period of time - and then sit the Final Examination with confidence. Every Study Manual and Training Manual is written in clear and easy to understand English, and the meanings of any "uncommon" words, with which you might not be familiar, are fully explained; so you should not encounter any problems in your Studies and Training.

But should you fail to fully grasp anything - after making a thorough and genuine attempt to understand the text - you will be welcome to write to the College for assistance. You must state the **exact** page number(s) in the Study or Training Manual, the paragraph(s) and line(s) which you do not understand. If you do not give full details of a problem, our Tutors will be unable to assist you, and your Training will be delayed unnecessarily.

Start now by reading **carefully** the following pages about Stages Two, Three and Four. Do **NOT**, however, start studying the first Study or Training Manual until you are **certain** you understand **how** you are to do so.

STAGE TWO - STUDYING A CIC MODULE

STEP 1

Once you have read page 1 of this document fully and carefully, turn to the first ***study section*** - called **Module One** - of ***Study or Training Manual One***. (Note: In some Manuals the term "Chapter" is used instead of "Module").

Read the whole of Module One at your normal reading pace, without trying to memorise every topic covered or fact stated, but trying to get "the feel" of what is dealt with in the Module as a whole.

STEP 2

Start reading the Module again from the beginning, this time reading more slowly, paragraph by paragraph and section by section. Make brief notes of any points, sentences, paragraphs or sections which you feel need your further study, consideration or thought. Try to absorb and memorise all the important topics covered in the Module.

STEP 3

Start reading the Module again from its start, this time paying particular attention to - and if necessary studying more thoroughly - those parts which were the subject of your earlier notes. It is best that you do **not** pass on to other parts or topics until you are **certain** you fully understand and remember those parts you earlier noted as requiring your special attention. Try to fix everything taught firmly in your mind.

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Note: You may not wish to, or be able to, carry out Steps 1, 2 and 3 one after the other. You could, for instance, carry out Steps 1 and 2 and then take Step 3 after a break.

STAGE THREE - ANSWERING SELF-ASSESSMENT TESTS

STEP 4

When you feel that you have **fully understood and learned everything** taught in the whole Module (and if necessary after a further careful read through it) turn to the Self-Assessment Test set at the end of it, and read the Questions/Exercises in it carefully. You do not have to attempt to answer any or all of the Questions/Exercises in the Test, but it is **best** that you do so, to the best of your abilities. The reasons for this are:-

- By comparing your answers with the Recommended Answers printed in the Appendix at the end of the Module, you will be able to assess whether you **really have** mastered everything taught in the Module, or whether you need to study again any part or parts of it.

- By answering Questions/Exercises and then comparing your attempts with the Recommended Answers, you will gain experience - and confidence - in attempting Test and Final Examination Questions/Exercises in the future. Treat the Self-Assessment Tests as being *"Past Examination Papers".*

Professional Advice on Answering Self-Assessment Test (and Examination) Questions and Exercises

1. You may answer the Questions/Exercises in a Self-Assessment Test in any order you like, but it is best that you attempt **all** of them.

2. Read very carefully the first Question/Exercise you select, to be quite **certain** that you really **understand** it and what it requires **you to do**, because:

   - some Questions/Exercises might require you to give full "written" answers;

   - some Questions/Exercises (e.g. in English) might require you to fill in blank spaces in sentences;

   - some Questions/Exercises (e.g. in bookkeeping) might require you to provide "worked" solutions;

   - some Questions/Exercises (called "multiple-choice questions") might require you only to place ticks in boxes ☑ against correct/incorrect statements.

   In your Final Examination you could **lose marks** if you attempt a Question/Exercise in the wrong way, or if you misread and/or misunderstand a Question/Exercise and write about something which is not relevant or required.

3. Try to answer the Question/Exercise under ***'true Test or Examination conditions',*** that is, **WITHOUT** referring back to the relevant section or pages of the Module or to any notes you have made - and certainly **WITHOUT** referring to the Recommended Answers. Try to limit to about two hours the time you spend on answering a set of Questions/Exercises; in your Final Examination you will have **only two hours**.

4. Although you are going to check your Self-Assessment Test answers yourself (or have a friend, relative or colleague assess them for you) practise writing "written" answers:-

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- in clear, easy-to-read handwriting;

and

- in good, grammatical language.

The Examiner who assesses your Final Examination answers will take into account that English might not be your national or main language. Nevertheless, to be able to assess whether you really **have** learned what we have taught you, he or she will need to be able to read and understand what you have written. You could lose marks if the Examiner cannot read or understand easily what you have written.

5. Pay particular attention to neatness and to layout, to spelling and to punctuation.

6. When "written" answers are required, make sure what you write is **relevant** to the Question/ Exercise, and concentrate on **quality** - demonstrating your knowledge and understanding of facts, techniques, theories, etc. - rather than on quantity alone. Write fully and clearly, but **to the point**. If you write long, rambling Final Examination answers, you will waste time, and the Examiner will deduct marks; so practise the **right** way!

7. When you have finished writing your answer, read through what you have written to see whether you have left out anything, and whether you can spot - and correct - any errors or omissions you might have made.
   Warning: some Questions/Exercises comprise two or more parts; make **certain** you have answered **all** parts.

8. Attempt the next Question/Exercise in the Self-Assessment Test in the same manner as we have explained in 1 to 7 above, and so on until all the Questions/Exercises in the Test have been attempted.

Note: There is no limit on how much time you spend on studying a Module before answering the Self-Assessment Test set on it, and some Modules are, of course, longer than others. You will, however, normally need to spend between twelve and fifteen hours on the thorough study of each Module - and that time may be spread over a number of days if necessary - plus approximately two hours on answering the Self-Assessment Test on each Module.

STAGE FOUR - ASSESSING YOUR ANSWERS

STEP 5

When you have answered all the Questions/Exercises set in Self-Assessment Test One to the best of your ability, compare them (or ask a friend, relative or a colleague/senior at work to compare them) with the Recommended Answers to that Test, printed in the Appendix at the end of the Module. In any case, you should thoroughly study the Recommended Answers because:-

- As already explained, they will help you to assess whether you have really understood everything taught in the Module;

and

- They will teach you how the Questions/Exercises in subsequent Self-Assessment Tests and in your Final Examination **should** be answered: clearly, accurately and factually (with suitable examples when necessary), and how they should be laid out for maximum effect and marks.

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MARKS AND AWARDS

To assist in the assessment and grading of your answers, the **maximum number of marks** which can be earned for each answer to a Self-Assessment Test Question/Exercise is stated, either in brackets at the **end of each one**.

The maximum number of marks for any one Test is 100.

Your answers should be assessed fairly and critically. Marks should be awarded for **facts** included in your answer to a Question/Exercise, for presentation and for neatness. It is **not**, of course, to be expected that your answers will be identical to all those in the Appendix. However, your answers should contain the **same facts**, although they might be given in a different order or sequence - and any examples you give should be as appropriate to the Questions/Exercises as those given in the relevant “Recommended” Answers.

Add together the marks awarded for all your answers to the Questions/Exercises in a Self-Assessment Test, and enter the total (out of 100) in the *“Award”* column in the ***Progress Chart*** in the middle of the full ***‘Study & Training Guide’*** when you receive it. Also enter in the *“Matters Requiring Further Study”* column the number(s) of any Question(s)/Exercise(s) for which you did not achieve high marks.

GRADES

Here is a guide to the grade your Self-Assessment Test Work has achieved, based on the number of marks awarded for it:

50% to 59%	PASS	60% to 64%	HIGH PASS
65% to 74%	MERIT	75% to 84%	HIGH MERIT
85% to 94%	DISTINCTION	95% to 100%	HIGH DISTINCTION

STEP 6

Study again **thoroughly** the section(s) of the Module relating to the Question(s)/Exercise(s) to which your answers did not merit high marks. It is important that you understand where or why you went wrong, so that you will not make the same mistake(s) again.

STEP 7

When you receive the complete Study or Training Manual One** from the College by airmail post, **‘revise’** - study again - Module One printed in it, and then turn to **Module Two** and proceed to **study it thoroughly** in exactly the same way as explained in Steps 1, 2 and 3 in this ***‘Study Guide’.***

When you have completed your **thorough study**, follow steps 4, 5 and 6 for the **Self-Assessment Test on Module 2**.

Continue in the **same way with each of Modules 3, 4, 5 and 6** until you have attempted and assessed your work to Self-Assessment Test 6, and have completed the study of Study or Training Manual One. But - and this is **important -** study the Modules **one by one**; complete Steps 1 to 6 on **each** Module **before** you proceed to the next one (unless during the course of your reading you are referred to another Module).

****Note:** When you receive Study or Training Manual One by airmail post, it will be accompanied by a 20-page **‘Study & Training Guide’** (containing a **‘Progress Chart’**) which you **MUST read very carefully** before starting your study of Module Two.

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TRAINING ON

BUSINESS ECONOMICS & COMMERCE

Module One

CONTENTS

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ECONOMIC SYSTEMS AND ACTIVITIES

Introduction: What is Economics?

There are many different definitions of "economics". But for the purpose of this business-oriented Program, we shall look upon economics as being the study of:-

- firstly:

  the ways in which people work to earn their "living" - their "income" - through the production of goods and services;

- and secondly:

  how those efforts affect prices and wages, demand and supply, and the values of capital, labour, land, and so on.

To help you understand these matters, let us consider a town - any town, anywhere in the world. In our town there will be numerous individuals, and most of the adults will be busily engaged in some task or occupation. Every town is likely to have a number of doctors, engineers, teachers, lawyers, accountants, business people, shopkeepers, artisans, gardeners, labourers, housekeepers, hoteliers, and many more. Each man or woman is usually engaged in his or her own trade or profession, and so we have what is called:

***the division of labour*.**

In spite of the differences in language and national customs which exist between different countries, the peoples of all nations undertake an activity of some kind with the **same** objective in view. And that is to ***earn a living***.

The goal of a person's labour is the **earnings** provided by that labour. Earnings are the means by which people can **satisfy their WANTS** for:-

- basic ***'needs'*** or ***'necessities'***, which are: **housing**, **food** and **clothing**;

  and

- perhaps also some ***'luxuries'*** such as bicycles, radios, television sets, dishwashers, DVD players, motor vehicles, holidays, and so on.

Because of the division of labour, each individual, in the process of earning his or her living, is producing ***products*** (goods or services - which we describe shortly) which are needed by himself or herself, and by **other** members of the community in which they reside.

The Economic System

The process of earning one's living by producing goods and services - products - for the community is known as ***economic activity***. The range of economic activities is wide and varied, but as a whole they jointly form what is known as the country's ***economic system***.

Any economic system is a delicate interdependent organization. It is often simply "taken for granted" by the majority of the population of a country. But it quickly becomes evident when one section of workers decides to take "strike action" and to "withdraw" its labour. It is only when such "action" leaves the population at large without some valuable commodity or needed service, that the inability of the economic system to supply our numerous requirements continuously is seen and/or felt.

This is the realm of the ***Economist***. An Economist specialises in analysing in detail the individual parts or **branches** that make up a country's economic system as a whole. By doing so, he or she hopes to gain a deeper insight into - and a better understanding of - the complex economy as a complete unit.

Economics, then, is a **science** which concentrates on understanding the complex forces which lie behind the production which will **satisfy our wants or requirements**.

The **main purpose** of economics is the study of MAN - as a species - in "his" efforts to earn a living, with a view to understanding the forces that control "his" behaviour. This is best done by taking branches of the whole economic system and considering how each branch functions within the whole.

Note: Purely for simplicity, we shall from now on use the word "he" - which you should read as being "he or she", and "his" - which you should read as being "his and her". No disrespect is intended to our very many female Members.

Income

People need to receive a regular ***income,*** that is, a sum of money which will be **spent** in paying to satisfy their WANTS or NEEDS for housing, food and clothing, and any other goods and services, they need or want, and can afford to buy or purchase. Such buyers are called ***'consumers'*** because - in their normal, everyday lives - they make use of, in various ways, the products they buy; and in many cases they use up - or **consume** - the products they buy.

Frequently consumers are the ***'end-users'*** of products, or the people who receive the **'benefits'** or results of services provided. There are, of course, many circumstances in which the buyer of a product might not be the actual end-user of it. For example, if a mother buys baby-food, it will be the baby who will actually consume the food. Nevertheless, from the point of view of the Economist and the seller or ***'vendor'*** of the product, it is still the buyer - the mother in this example - who will be considered the consumer.

The sources of people's incomes can vary; some of the common ones are:-

- Some people are employed - on a full-time or part-time basis - to perform work, for which they are paid money in the form of **wages and/or salaries**; this is called "paid employment" (and applies to top executives as well as to junior employees). Some sales personnel may be paid a percentage **commission** on the values of products sold, in addition to or instead of, salary.

- Some people run their own businesses, and their incomes derive from the **gains or profits** achieved from the activities of their respective businesses.

- Some people receive income by allowing other people to use land and/or buildings which they own; they "let out" or "lease" land for agricultural or other purposes, and building space for accommodation and a variety of commercial purposes. What the owners receive is called **'rent'**.

- Some people receive income from **'interest'** on money which they have invested - or "deposited" - in banks or building societies or with other financial institutions.

- Some people receive income from the money which they have invested in companies, by buying "shares" in them; they are paid **'dividends'** out of any profits made by the companies during the course of their activities.

- Some older people might be paid **'pensions'** by their governments, or by former employers or other financial bodies.

We look more closely at some of these sources of income later, and also at some of the *"commercial terms"* - such as "profit" - which we have used. Note now, though, that some people's "total" income might derive from two or more sources. For example, a person might earn salary from his employment, and might "save" some of it with a bank, by which he or she will be paid interest.

Whilst very many people have incomes, the range of the sizes or amounts of their incomes is wide. Some individuals have small or low incomes, and they are considered to be poor. Some individuals have modest incomes, and they might be said to be well-off. Other individuals have large incomes and they are considered to be affluent or wealthy.

Nevertheless, whether people have small or large incomes, they all have one factor in common:

their income is limited

By this we mean that no matter what might be the actual size of the income an individual receives, it is very likely to be **in**sufficient for him to acquire all the goods and services that he **would like** to have. Therefore, for the majority of people at any one time, we might say that their ***funds*** are limited.

Although everybody has basic wants or needs, the size of income can greatly affect the **satisfaction** of those wants or needs. Consider food, for example; every citizen of a country must eat to stay alive and healthy. But whereas a significant proportion of the population of a country might satisfy food needs with that country's "staple diet" - which might be rice, maize, yams, potatoes, flour, etc - other, more affluent sections of the population, as well as the populations of more developed countries, might require fish, eggs, meat, or other foodstuffs in order to satisfy their food needs.

The Choice Factor

Most of us receive only a **limited** amount of money in return for our labour, and - if we are sensible - we try to spend our earnings in such a way as to obtain the maximum possible amount of necessities, and also the satisfaction of other needs and/or pleasure. We all have certain basic wants or needs or requirements, e.g. for food and clothing. But in most countries there is a wide range of standards of food and clothing available on the market. Moreover, there is a wide range of other items on which our incomes **could** also be spent.

We therefore encounter the factor of ***consumer choice****:* a wide variety of products - goods and services - faces the consumer on the market, but he can claim only a few of them because **his income is limited**.

It might be that a woman can afford to purchase a dress or a pair of shoes, but not both. Therefore, she must make **a choice**. Whether we realise it or not, we - and all other consumers - are continually considering our need of one item as compared with another item. And that applies in business, too: for example, the choice for a business person might be between the purchase of new office furniture or the purchase of a new delivery van.

Moreover, a second item is limited. That is ***time***. Each individual has 24 hours in a day, and he must allocate so much of his time to sleeping, so much to eating, so much to earning a living, so much to leisure, and so on. This whole situation might be summed up by saying that Man is constantly limiting himself in time and money in one direction or another.

If we all had as much time and as many resources as are required to meet our demands, there would be no need for limitation and no economic problems would arise. However, because our time and our funds are limited, they must be used in **alternative ways**, and so we are continually faced with **a choice**.

Economic Law

You can now see more clearly the realm of the Economist. He (or she) is concerned with the "real world". He appreciates that resources are limited and that there is always a choice between alternatives. However, whilst the **consumer** is deciding how much bread, meat, rice or fruit to purchase, the **producer** is also deciding on the quantities of bread, or meat or rice or fruit to produce or supply.

The consumer and producer are rarely the same person. Yet somehow the apples and the clothes, the meat and the machines - and all the other products that people can choose to buy, **do** appear in the shops or stores. The interaction and the significance of the decisions people reach are given special attention by the Economist in his studies. He tries to understand how all economic activities are interrelated, and from his researches he will obtain information which shows a **relationship** between one event and another.

By analysing that information the Economist will attempt to formulate an ***Economic Law****,* which will take the form o*f "cause and effect";* that is, if this happens, then that will be the result. Such information can be very valuable indeed to business people in their planning of the **future activities** of their respective businesses. Let us examine why that is so.

Firstly, you must appreciate that all economic activities are ***the result of human action****.* And because *human decisions are variable,* it follows that Economic Laws cannot be applied with the accuracy of the Laws of Science. Given the same set of circumstances, human beings will **not always** react in an identical - or in a predictable - manner. However, if all other factors remain the same and constant, the Economic Law will indicate that following a stated action there will be a **tendency** for a certain event to follow. For whilst all reactions to a given set of events will not be identical, Man is basically rational and therefore will TEND to react in a particular manner.

The prediction of effect from cause is **statistical**:-

- we **can** predict the reaction of a proportion of a large number of people;

but

- we **cannot** predict the reaction of any one specific individual.

It is here that the Economist is of great value. He can make ***predictions*** or ***forecasts****,* and by using his knowledge of economic activities he is often able to indicate the **consequences** of a certain line of action. It is in this way that economics helps business people to choose between available alternatives. Ultimately it is the individual who makes the choice, but the problem of choice is made easier if the **consequences** of each choice are known in advance.

Note: When we refer to a **'law'** in Economics we mean a **theoretical principle** propounded after observation or extracted from practice, in the same ways as we can refer to the "laws of nature" or the "laws of physics". This usage differs from reference to the Law enacted and laid down by the government of a country - the State, which can be enforced, and which all its citizens must obey. However, Commercial Law is legislated for by a country's authorities, and must be complied with strictly by all business people.

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Planning and Forecasting in Business

Plans are **predetermined routes** to the achievement of certain ***objectives*** or ***targets*** - which might concern volumes of sales, or income or profits, or other matters - for businesses. Plans are really the results of decisions taken by business people on HOW those objectives are to be achieved. Planning is concerned primarily with activities in the **future**. That might be the immediate future (e.g. a few minutes ahead or a day's work) or the more distant future (e.g. 2, 4, or more years ahead). Unless there is some guidance as to what might occur in the future, both short-term and long-term planning would be no more than mere guesswork. What is called ***forecasting*** is therefore essential if business people are to be able to carry out effective planning.

In your everyday lives, you might come across the words "forecast" and "forecasting" mainly in connection with the weather. You might read *"weather forecasts"* in newspapers, hear them on the radio, and see them on television or on the Internet. They are concerned with what the weather **will be** - or is ***expected to be*** - in **the future**, usually the fairly near future. Such information is useful to different people in many different ways: from helping some to decide what clothing to wear, e.g. for wet or dry weather; in helping some to plan sporting fixtures and other "outdoor" activities; in guiding farmers when to sow their crops and when to harvest them; and so on.

So it is in business. Forecasting is intended to determine - as accurately as is possible - the **probable course of future events** which might AFFECT a particular business and its activities. A **forecast** is an assessment of the ***expected pattern of future events*** and the way(s) in which they **might** have EFFECTS on the operations of a business. It is not possible to anticipate or to foresee the future exactly; but the more accurate the forecasting:-

★ the lower will be the degree of uncertainty about future events;

and

★ the greater will be the possibilities of formulating reliable plans;

and, in consequence:

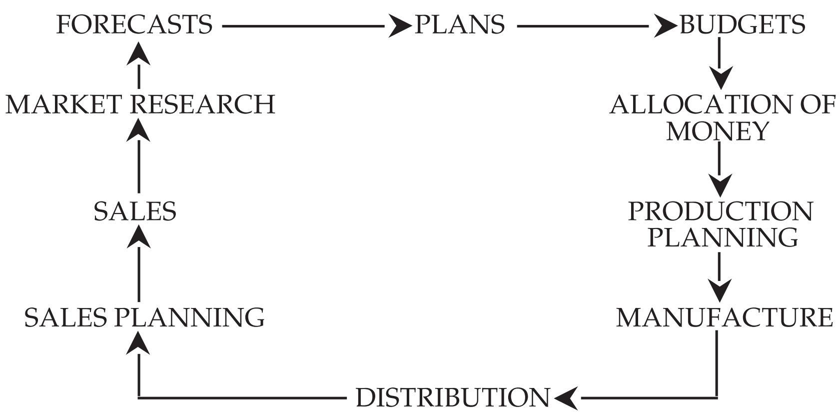
★ the greater will be the chances of achieving the business objectives.

You can see that the information which can be provided by the Economist about FUTURE TRENDS, coupled with a business person's own knowledge of his or her own business, can greatly increase the accuracy of forecasts.

Forecasting is an essential adjunct - or accompaniment - of planning by business people. Based on a forecast made, plans can be formulated to deal successfully with expected future events, and to take steps to deal with any business problems which it is anticipated will arise in the future - or even to avoid them before they arise. A good example of the importance of forecasting is in **anticipated sales** of products.

Sales are affected by many factors, which include economic activities in a country, political trends, competition and costs. The business person must consider all those factors before he or she can be sure that the business can sell all it manufactures or has available for sale. Forecasts are also important in preparing **'budgets'** of anticipated expenditure which will have to be incurred by the business to satisfy its customers; the budgets (considered in a later Modules) will indicate the amount of money which will need to be allocated.

Fig.1/1. A simple business cycle showing forecasts, plans and budgets



A study of economics gives a business person an understanding of how the economic system of his country works. That enables him to evaluate more clearly the position of his business in that system, and how that position might be improved. Moreover, it arms the business person with a knowledge which enables him to understand the reasons for - and the likely consequences of - economic measures in force, and any proposed changes to it by government and local authorities, and to take steps in advance to overcome problems.

What Influences 'Wants'

The decision to undertake the production of a given item or the provision of a certain service might rest with just one person or with a small or large group of people. Whatever the situation, **all** production is undertaken for a single purpose. The aim of production is:

to satisfy a 'want' - a 'need' or a requirement*.*

Thus we expect the economic system to supply us with food, with clothing, with medicines and, in fact, to supply our many wants. The **ability** of any particular product **to satisfy an individual's wants** is called its ***'utility'****.*

Utility

The term ***'utility'*** expresses the **relationship** between a possible purchaser and a commodity. If a product has utility, then we understand that the consumer **requires** that product in order **to satisfy a want**. Examples of products include: food to appease hunger, a drink to quench thirst, medicine to alleviate illness or pain.

Diminishing Utility

The utility of any commodity might vary with the quantity of it that is available to the consumer. In general terms we can postulate that:

"The larger the supply a man has of a product, the less does he want an additional quantity of that product."

For example, a man who has not had a drink to quench his thirst for several hours, would attach great utility to a cup of tea. That is, he would place great value on that first cup of tea. It is probable that he would place less utility on a second cup of tea offered to him after he had drunk the first cup. If a third cup of tea was offered to him, he might reject it entirely, having drunk his fill - that is, having *satisfied his want.* In effect, we are saying that the utility of additional units of a commodity to a consumer **decreases** as that consumer's stock of that commodity **increases**.

This is the ***'Law of Diminishing Utility'*** and it is valid for all things. There is a point beyond which the money representing the purchase of another unit of a given commodity could, in the eyes of the individual, be more beneficial - and give him greater utility - if it was spent on **something else**. As our desire for a commodity tends to **diminish** with every increase in the quantity of that article which we possess, the utility of each additional unit **decreases**. This tendency is common to **all** people and to **all** things.

Marginal Utility

The word ***'marginal'*** is used frequently in Economics. To help you to understand its meaning, we shall now consider what is meant by *marginal utility* and the *marginal unit.*

The ***marginal unit*** in any given situation is the **last item** under consider- ation. For example, if a student already has four text books on the same subject and considers the purchase of a fifth, then that fifth book is termed the marginal item. In a rather crude sense, the marginal item can be thought of as being that **'extra item'** which is under consideration when we continually ask ourselves: *"Shall we buy it or shall we keep our money?", "Is the fifth book really necessary, or shall we buy something else?"*

Whether or not the purchase is actually made will depend upon the ***marginal utility*** of the marginal unit. The marginal utility is the **extra *'benefit'* - satisfaction** or **pleasure**, which will be derived from possessing that extra unit. This brings us to the basic rule which the consumer will always follow in deciding how much of a commodity he will buy. As the amount of money available to him is limited, he will try to distribute it between the many possible purchases which he **could** make, in such a way that he could not do better by spending that amount of money in any other way. His aim is to obtain the **maximum benefit** he can from his income; in other words:

He attempts to derive the greatest possible utility from his expenditure.

Equilibrium of Expenditure

Because income is limited, the more one purchases of, say, item 'A', the less one will be able to afford to purchase of, say, item 'B'. Therefore, the individual has to make a **choice** when spending his income and that choice will of course reflect his personal tastes and preferences. Mentally he will arrange his ***'wants'*** in some order of priority. Although utility is not a measurable quantity, a person can arrange his wants in some order of preference.

In deciding how much of each item to purchase, the main consideration is the marginal utility; that is, as explained, the **extra benefit** or **satisfaction** to be gained from the purchase of one extra unit. What a consumer decides about marginal utility determines how that consumer will distribute his income.

The best use of a consumer's funds will be when:

The marginal utility - from the marginal unit of each of his purchases -
is **the same**.

That must be so because of the way in which we have defined the terms for you. Maximum benefit or satisfaction will be achieved when the marginal utility of each marginal purchase is the same. In that situation the consumer will not wish to change, because he cannot do better by rearranging his expenditure in any other way; he has attained what is called *"equilibrium of expenditure".*

The Satisfaction of Wants

The **aim of overall production** is to satisfy the wants and needs of **all** individuals within the economic community.

In everyday speech, the word ***'production'*** is often used as if it always means the creation of something **tangible**, that is, a physical object which can be seen and felt. There are many thousands of such objects, ranging from paperclips to satellites, from onions to oil rigs - in fact the list is endless. Many of the objects in this "physical" group of products - which actually exist or which can be made to exist - are referred to as being ***goods***.

However, we must also consider people such as doctors, musicians, mechanics, accountants, lawyers, teachers, tailors, cooks, hairdressers and launderers - to mention just a few. They produce and provide what are called ***'services'***. In general, services are **intangible**, and only the **result** of some action or work performed can be seen and/or felt. For example, a mechanic who repairs a broken machine has performed a service; the result of his effort is that the machine now operates, whereas before it did not. Similarly, an estate agent who arranges the sale of a client's house performs a service - involving the change of ownership of a physical product, the house, in this case.

Some services offer "peace of mind". Examples include insurance against fire, loss or accident; the result will only be seen or felt if and when an event insured against become a reality, that is, if a fire, a loss or an accident occurs.

The people whom we listed above - and many others - all satisfy a want, or a demand, and that can be proved by the fact that other people **pay** money to obtain their services. The words of a singer might well perish in the very instant of their being sung - but if people **pay** to listen to those words, then production has been achieved: a want has been satisfied.

Earlier we defined ***'utility'*** as the satisfaction accruing to a consumer from an item acquired. Therefore, as all **production** is undertaken to satisfy wants, we might define production as: ***'the creation of utility'***.

The Factors of Production

Production in some forms might be simple. Consider for example, a person who is wandering through a wood and feels hungry; he picks fruit from a tree and eats it; in doing so, he has satisfied a want. However, a free "gift of Nature" (the fruit) has been used.

All goods must begin as gifts of Nature, because "mankind" **cannot create anything**. What "man" does is to take things provided by Nature and **convert** them into more useful or saleable forms. For example, man cannot create animals - although he can "assist" Nature by, say, scientific or selective breeding. What man does is to convert animals or parts of animals into saleable products, such as hides, wool, foodstuffs, etc.

Even a "simple" can (or tin) of fish which might appear on the dinner-table on occasions requires a complex system of production. The metal for the can has to be mined and processed and the can produced from it; the fish has to be caught, prepared and packed. Moreover, the mine, the foundry and the canning factory have to be administered, wages have to be paid; the can containing the fish has to be transported from the factory, and must eventually reach the consumer.

The agencies involved in the production of all items can be divided into three kinds, which are known to Economists as the ***'factors of production'***. These three kinds: are ✱ Land, ✱ Labour and ✱ Capital.

✱ *Land*

Economists use the term ***'land'*** to mean all resources provided by Nature. Thus, land to an Economist is not just the surface upon which we stand, but is the collection of **all** natural resources which are used in production. Included would be such things as trees, mineral deposits, fish and animals, and in fact all things provided by Nature.

✱ *Labour*

In economics the term ***'labour'*** refers to all manual and mental effort undertaken **for reward**. Note that it must be effort **for reward**. For example:-

- The effort of a **professional** footballer is considered to be labour, because he is PAID for playing.

- The effort of an **amateur** footballer playing in spare time is **not** regarded as being labour because he plays for enjoyment, and is NOT paid for doing so.

Labour's efforts produce goods or services which go to meet the needs of the community. You will appreciate that the services of farmers, bankers, soldiers, policemen and other *"service-providers"* are all **productive**. That is because the services they provide **have value** which can be measured in terms of the rewards which they receive - that is, what they are paid - for their efforts. The value of the services is measurable in terms of money.

✱ *Capital*

The term ***'capital'*** refers to all material resources, other than land and labour, which are used in production. Capital exists as the result of **past** production. In essence, capital is past production set aside for use in - and to assist with - **future** production. Capital items are easily identified because they are not wanted for their own sake but for what they can in turn produce. For example, to a tailor a needle is capital because it is not wanted for any intrinsic value which it has, but to enable him to produce a suit of clothes.

The Entrepreneur

Land and labour can be organised for production far more efficiently when capital is available. Consider the owner or proprietor of a business. He makes all needed decisions and takes all the **'risks'** involved in running his business (for example, that the business might lose money or "fail", possibly due to events - such as government actions - over which he has no control). The factors of production are co-ordinated by him so that products we require are at the place **where** we need them, **when** we need them. This person provides a specialised kind of labour, and he (or she) is known as an ***'entrepreneur'***.

An entrepreneur undertakes the functions of co-ordinating, controlling and assuming the risks of business. In developing an idea, co-ordinating and controlling the business and assuming the risk of production, the entrepreneur seeks to keep costs low and efficiency high. He acts as the "link" between production and the unco-ordinated consumers. Modern industrial production is so complex that this function is sometimes regarded as ***'a fourth factor of production'***. In actual fact, it is only a specialised form of labour.

In a later Module we consider how the economic system "persuades" the entrepreneur to produce the goods or to provide the services which consumers want. That can be done in various ways, and much depends upon the form of the economic system under study. The point for you to note at this stage is that the governments of various nations intervene in economic activity for one reason or another. The extent of such intervention is a policy decision by the government concerned, and is the result of a choice. Government has the choice either of leaving production to "private" individuals or groups of such people, or of becoming involved in production itself.

Private Enterprise

It is claimed that economic activity is such that a supply will be created wherever there is a need: *"Where there is a demand there will be a supply."* One type of economic structure is based upon a system of private enterprise. The conditions necessary for private enterprise are:-

★ that ownership of **private property** must be allowed;

and

★ that people must be **economically free**; this means that, subject to Law, people must be free to use their time and their funds as they see fit.

These elements are found in many countries today, with people owning private property in its various forms to a greater or lesser degree, depending on what they can afford. People might own a house and/or a motor vehicle, others might own a yacht or a farm or machinery and plant. The list is endless. Private enterprise requires that the ownership of such property be recognised by the nation's Laws - the "Law of the Land". If that applies, an individual might look to the government for protection of his property and for redress against those who would illegally deprive him of such property.

Economic freedom means that the individual is free to do as he likes with his own property, time and energy. This freedom is only restrained by such legislation as is felt to be socially desirable or for the "common good"; an example might be a law against drug peddling.

Economic systems which look to free private enterprise to supply their requirements are said to be organised as ***capitalist systems***. This does not mean, however, that there might not be any state or municipal enterprise at all. There are many variations, and the governments of some countries - for a variety of reasons - might wish, or need, to become more involved in some aspects or areas of production than might the governments of other countries.

All Economists recognise that benefit can be obtained by allocating certain specific tasks to government, but disagreement prevails as to the optimum extent of governmental activity. One expects benefit to arise if government accepts responsibility for large capital programmes which are necessary; under this heading are such constructions as motorways, airports, dams and bridges.

In addition, certain services are seen as essential to the "common good" or for the nation's security or wellbeing, and for one reason or another are best provided by government. A police force is one example, as if it was left to private enterprise it would be difficult to envisage an effective national police force. The question of finance would present a problem: how would one allocate charges for police services? Moreover, if the police force were to look to private individuals for finance there is always the question of whether corruption could be avoided. Similarly, the security of the nation as a whole will be safeguarded by the armed forces under the control of the government.

In some countries government accepts responsibility for several basic industries; these might include some or all of: fuel (coal, gas and electricity, as appropriate), railways, posts & telecommunications, broadcasting, national health, the manufacture of military hardware, and so on. In each case it is considered that the nation as a whole receives a better service or some greater benefit than it would if such activity were left to private enterprise.

Communism

In some countries private property and private enterprise do not exist, or produce a small proportion of total output. In such **communist** countries, as they are called, the ownership of all property is vested in the ***'State'***.

In addition, the State assumes responsibility for production and takes decisions on what to produce and how much of a particular commodity to produce. The "central authority" representing the State seeks to estimate what commodities and how much of each commodity the people will want. In essence, the State's governing bodies plan the economy and all economic activity; they direct the country's factors of production as they see fit.

Just as no nation relies completely on private enterprise, so no State is completely communist in practice. There are, indeed, very great problems in estimating what consumers want, and this task in itself involves considerable manpower. Moreover, human nature being what it is, the idea of personal property and effects, together with profit, in general provide stronger motivation to effort than any government directive.

Economic Planning

As opposed to the two extremes we have so far described, we find today that the economies of most countries are ***planned economies***. That is, they are based to some extent on private enterprise, but government has noted the advantages of economic growth.

By ***economic growth*** we refer to an increase in the total output of a nation. The advantages of this are obvious. Consider a community of ten men. If they produce, say, 10 loaves of bread per day, then assuming an equitable distribution of wealth, each man would receive 1 loaf. Now if economic growth were to take place we might see a production of 20 loaves. This would give each man 2 loaves, and therefore each would be "better off" than before.

We have explained that there are differences between countries as to the extent to which their governments become involved in production in a practical way. In a similar way there is a difference in the extent to which governments seek to guide the economy in a specific direction.

The government of a particular country might decide that it would prove beneficial to guide the economy towards a specific goal, such as economic growth. It might then take such steps as it feels necessary to guide the economy to this end. This is called ***economic planning*** and it is reflected in many forms. There are several tools which governments can use to this end, and we study them more fully in a later Module.

Commerce and Economics

You have learned that the Economist is concerned with the operation of the economic system of a country, why it operates as it does, and the effects on production of changes in the system. The Economist tries to predict what is likely to happen to the country's economy - in the country as a whole - if certain action is taken, or if some other action is not taken.

The man of Commerce, however, is concerned with the **transfer** of the results of production **from** producer **to** consumer. He might be a small retail shopkeeper or a wholesaler or the manager of a supermarket chain or a director of a company engaged in the import and/or export of large quantities of goods. Whatever part he plays in Commerce, he is primarily a **Trader**, and he must therefore deal with a host of practical, everyday matters and make use of commercial services such as banking, insurance, transport, advertising, communications, etc.

The success or failure of a Trader's business can depend upon changes in the economic system of the country in which he operates. The banning by government of certain imports might deprive him of goods in which he trades, or might affect the prices of goods he must buy or sell. An increase in taxation might also affect his ability to trade profitably.

So, although the Economist and the Trader are engaged in different fields, the Trader is to a certain extent dependent upon Economists who might advise the government of the day. Economists of different political views and ideals advise their governments differently, and so the Trader is often at "the mercy" of government economic policy.

The Trader is compelled to conduct his business within the country's economic system. He is concerned with his own personal position. He must know the procedures, regulations and laws which govern his business and must be familiar with the various documents used in his kind of trade, be it clothing, food, machinery, or anything else.

The Trader of necessity has his eyes on his individual occupation and business, whereas the Economist views the country as a whole, embracing all kinds of production and commerce. Without production there can be no commerce; without commerce, production is useless. Commerce brings the results of production from producer to consumer, as will be illustrated to you in later Modules.

The Division of Labour

It is likely that under the most primitive conditions, each individual was responsible for providing **all** the necessities of existence for himself. But as Man became part of a community, firstly as a family unit, the tendency arose for work to be shared out - to be divided - amongst various members of the community. For example, whilst the man went hunting animals, the woman would be preparing food and perhaps making some articles of clothing, as well as looking after the children.

As time went on and people lived in larger communities, such as tribes, there would inevitably be the tendency for some men to confine themselves to hunting whilst other people undertook the tasks of growing crops, or making tools, or making cooking utensils, and so on; often depending on what they were best at doing. This was already a "division of labour".

Then, as the kind of articles required became more complex, the different processes in the making of an article were also divided between different people; again, according to their skills and abilities. For example, one man might confine himself to hunting and killing animals, whilst another would do the skinning, and still another would do the curing or sewing and shaping of the skins.

Barter

Because of this division of labour, the necessity arose for ***exchange**:*

some goods and services - the result of the effort and work of **some** people

need to be exchanged for

other goods and services - the result of the effort and work of **other** people.

For example, the man who captured animals would have too many for himself and his family alone, and would want **to exchange** some of them for clothes, cooking pots, weapons and crops which other people had produced. Those other people would want the animals **in exchange for** the articles, such as cooking pots or arrow heads, which they had produced and which were in excess of or "surplus" to their own requirements.

So of necessity there arose a system of ***barter**,* by which it could be **agreed by bargaining** that, say, one antelope skin was worth, say, ten cooking vessels, or five bags of corn.

But barter had great **dis**advantages. For example, if there was a shortage of animal skins, the man who had some to sell would probably have wanted more than the usual ten cooking pots or five bags of corn. Also, there would have been times when no more skins were required, and the seller would then have had to accept less in exchange for them than the usual quantity of pots or corn.

Modern Society

Today's society is really only an extension of the situation in those far off days. Our modern society is more complex because our requirements are far more varied and of far more advanced nature; we require stone houses and not mud huts; textiles for clothing and not animal skins; refrigerators and not holes in the ground.

To meet the needs of our advanced scientific and technological society we must **specialise** to a high degree; we need surgeons, engineers, carpenters, and many others, and in most cases we need people to specialise even in the divisions of their professions. Whilst one surgeon might specialise in heart transplants another specialises in bone fractures; one engineer might specialise in bridge construction whilst another specialises in shipbuilding. Furthermore, the divisions might also be subdivided: in shipbuilding we have the different trades of riveters, welders, carpenters, painters, and many others.

The Advantages of the Division of Labour

Today most production is carried out on a large scale; often called ***'mass production'***. That is necessary to meet the needs of a large population which requires a wide variety of goods and services at prices which they can **afford**; that is, which they can obtain in exchange for the money they receive for their own labours.

The need for lower prices has led to large scale production and still further subdivisions of labour, which has the following advantages:-

Greater skill of workers

Having only one kind of task to perform, an employee can be trained quickly, and by continual repetition of the task he or she can improve speed and increase quantity of output.

For example, in the early days of motor vehicle manufacture, it was usual for each man to assemble an engine completely. Then Henry T. Ford, the founder of the Ford Motor Company, discovered that by dividing the assembly work into 84 separate tasks, and having **each** task carried out by just one man or by a small group of men, the same overall number of men were able to assemble three times the number of engines in the same period of time.

- ***Every person can specialise*** in the kind of task for which he or she has a special aptitude

This means that, in motor vehicle assembly for example, employees might be found who like or who are good at performing work involving welding, whilst others might prefer spray-painting, and others might prefer doing electrical work, upholstery work, and so on. As a general rule, people tend to perform best and quickest that work which they prefer to be doing, or which they are best able to do.

- ***Routine tasks can be operated by machinery***

Machines working automatically can be supervised by fewer people than would be required if only manual work was carried out.

- ***Reduction of capital needed***

Fewer tools and less equipment are required, with less duplication; that is especially so if the tools and equipment are used continuously by day and night shifts of workers. In consequence, businesses can be established and run with the investment of relatively smaller amounts of capital than might otherwise be the case.

Disadvantages of Subdivision

Taken to extremes, the fine subdivisions of labour might have the following disadvantages:-

- ***Monotony***

A worker might become bored by doing the same small task all day long, day after day, and that might lead to careless work, to accidents and to disputes.

- ***Decline of craftsmanship***

A worker will not be so interested if he or she cannot see the complete result of the work, which includes that of other people. A person who completes the production of an article from start to finish must take more pride in his or her work than a person who carries out a small routine part of the work. Craftsmanship and individuality are thus lost to the country.

- ***Greater risk of disruption***

Because of fine specialisation a worker is a “link in a chain”, and if one “link” fails to work the chain is broken. Thus, if the welders in a motor vehicle factory were to go out on strike, other workers would be unable to carry out their tasks and the whole production would cease. There have been many such cases in different countries in recent years, which in extreme instances have resulted in factories having to close, and in job losses.

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Limiting Factors to the Division of Labour

Before we leave the topic of the division of labour, we must point out that there are **limits** to subdivisions. The market for the goods produced might not be able to take all the goods at a profitable price, and the cost of transporting the goods to overseas markets might be prohibitive in the face of overseas competition. In such a case it might not be worth the expense of subdivisions and the capital outlay to produce more goods.

Also, there might be technical limitations to further subdivisions; the number of processes involved in further divisions might prevent the employees working efficiently.

The Uses and Value of Money

We have explained that the exchange of goods and services by barter has great disadvantages in larger communities. It was realised long ago that what was required was something that could be used as:

a medium of exchange.

Barter requires a "coinciding of wants" by two parties; for example, the hunter must want corn at the same time that the farmer wants skins. Also, the two parties must agree on how much corn is worth one skin. If the farmer has less corn to spare than the agreed value, the hunter might not wish to spoil a skin by cutting - dividing - it into parts.

The use of **money** overcomes these problems. But to function properly and effectively, money:

★ must be generally recognised as having a **fixed value**;

and

★ must be generally **acceptable** throughout society.

Any article or material might be used as money, provided that it is so recognised and acceptable; although some materials are more suitable for the purpose than are others. In the past, in some parts of the world certain seashells were used as money, whilst in other parts of the world certain fish were so used. Such items can, of course, be satisfactory only in relatively small, isolated communities (although in Germany, after the 1939-1945 war when the German currency was no longer acceptable, cigarettes replaced German bank notes for a time.)

The principal stages in the development of the use of money have been as follows:-

- The use of some **commodity** which was in general demand, such as cattle.

- The use of some **precious metals** by weight.

- The use of **definite weights of metal** shaped to form ***coins***.

- **Goldsmiths' receipts** for the deposits of coins. This was the origin of ***paper currency*** - ***notes***. In former days in cities such as London, the goldsmith was accepted as a businessman of high repute, and people would deposit their money with him for safekeeping.

The goldsmith would give a written **'receipt'** - for the amount of money accepted from a "depositor". And that receipt - being **proof** that the deposit of a sum of money had been made - could, if necessary,

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be given by the depositor to another person. It was what is called a *"negotiable" receipt,* because as it was passed from one to another, it also transferred from one person to another **the ownership** of the sum of money stated on it.

✲ **Bank notes** issued by an approved bank were the development from the goldsmiths' receipts. ***Bank notes*** or ***currency notes***, issued by a central authority such as a government, printed on paper, retain their capacity to act as money only so long as the public has confidence in them. The notes have **no** inherent value, as do precious metals or cattle, for example, but have value **only as a means of exchange** or **of purchasing goods or services**.

A bank note is an acknowledgement by the bank concerned that **it owes** the "bearer" - the person in whose possession it is - a certain sum of money; a bank note can be passed from one person to another, and the bank's debt is similarly transferred. So long as money can be used for the exchange or purchase of what we require, it fulfils its main function. Whilst people have confidence in a medium and as long as it is generally acceptable, that medium can be regarded as being money.

✲ Bank deposits can be transferred from one person to another by ***currency notes*** or by ***cheque*** (or "check") or by ***electronic means***. As we have explained, a bank note is an acknowledgement by the bank concerned that it owes the bearer a certain sum of money, and the bank's debt can be passed from one person to another as the bank note "changes hands".

In the same way, money deposited with a bank can be transferred from one person to another, by giving "written instructions" to the bank holding the deposit. The issue of a cheque is no more than such a "written instruction" to transfer money, and although this is probably still the most common method in use, developments in communications are rapidly increasing the use of other methods of money transfer.

The Functions of Money

Money plays several important roles within any community and country, as well as internationally between different countries.

* *Money serves as a Medium of Exchange*

Money provides a "common denominator" in which the values of all goods and services can be expressed. By definition, money is a commodity which is generally acceptable, generally recognised and which has the confidence of all society. It therefore eliminates the need for two parties to a transaction to coincide in their wants - as in the case of the hunter and the farmer, which we earlier used as an example. Each seller will accept money in exchange knowing that it will enable him in turn to obtain what he requires when he requires it.

* *Money serves as a Measure of Value*

Money eliminates the necessity of deciding upon a **rate of exchange** between goods of different kinds, as in our earlier example of a skin and bags of corn. Money is a means of assessing the value of groups of different articles and services.

* *Money serves as a 'Store' of Wealth*

Money provides a means of holding current wealth for use in the future. By foregoing the consumption of goods or services now, one can "hold" or "save" money, and retain its power of purchase and exchange for use in the future. Such "stores" of wealth can also be used as capital to finance production.

SELF-ASSESSMENT TEST ONE

You will find **Recommended Answers** - against which you may assess and compare your own answers to the Questions in this Test - on page 25. The maximum mark which may be awarded for a Question in this Test appears in brackets at the end of that Question. Do **NOT** send your answers to these Questions to the College for assessment.

No.1. Distinguish between "wants" and "utilities" in economics.

(maximum 30 marks)

No.2. With an example of each, describe the economist's view of (a) land, and (b) labour.

(maximum 30 marks)

No.3. What is meant by the "division of labour", and what advantages can accrue from it?

(maximum 30 marks)

No.4. Place a tick in the box ☑ against the **one correct** statement in each set.

(a) *The economic system of a country comprises:*
1☐ a set of rules and regulations laid down by economists.
2☐ the study of how people make choices between products available.
3☐ a wide range of different economic activities.
4☐ the prices of products which consumers are prepared to pay.

(b) *In economics and commerce, the term "consumers" refers to:*
1☐ people who patronise restaurants, cafes and other eating places.
2☐ buyers who are the end-users in various ways of products they buy.
3☐ those in business to sell products and earn profits.
4☐ those in employment who receive income in exchange for work.

(c) *The Law of Diminishing Utility is concerned with:*
1☐ the expected pattern of future event which might affect a business.
2☐ the decrease in the usefulness of economists to business people as a country's economy expands.
3☐ the people in a community earning low incomes.
4☐ the decrease in satisfaction gained from additional units of a product as a consumer's stock of that product increases.

(d) *In economics and commerce, the "factors of production" are:*
1☐ land, labour and capital.
2☐ suitable premises, trained staff, adequate materials.
3☐ the various costs involved in manufacturing each unit of a product.
4☐ tangible items which can be seen, felt, touched or tasted.

(e) *To serve its purposes, money must:*
1☐ circulate constantly between businesses, their customers and their employees.
2☐ circulate freely between all citizens of a country.
3☐ be generally recognised as having a fixed value and be generally acceptable throughout society.
. 4☐ be accepted by economists as playing a role in a country's economy.

(2 marks for a statement correctly ticked - maximum 10 marks)

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RECOMMENDED ANSWERS TO SELF-ASSESSMENT TEST ONE

No.1. To the Economist a "want" refers to anything which people feel a need for. It is a need which requires to be satisfied. Every person, whatever his or her standing in a community, has basic wants which require to be satisfied; such as food and drink, without which life cannot be sustained. However, wants can and do vary greatly according to the standards of living to which people have become accustomed. For example, the wants of a section of a country's population as far as food is concerned might be satisfied by that country's staple diet, be it rice, maize, bread, potatoes, or another food; whilst the food wants of more affluent sections of the country's population might, perhaps, include fish, eggs, milk, etc.

To the Economist, "utility" refers to the ability of a product to satisfy a particular want. If a consumer requires the product to satisfy a particular want, then it has utility - to that consumer. However, because different people have different standards of want, a product which has utility to one person might not have utility - or to the same extent - to another person.

No.2. The three factors of production are land, labour and capital.

Economists refer to "land" as being all resources which are provided by Nature. So, to an Economist, land is not just the surface upon which people live and work, but is the combination of all natural resources which are used in production. Included would be such items as trees, mineral deposits, fish and animals, and all other material items provided by Nature

Labour is work performed in order to produce goods or services which go to meet the needs of the community. In economics, "labour" is the term applied to all manual and mental effort which is undertaken for reward. The words "undertaken for reward" are important in this context. An Economist would consider the work of a chef in a restaurant kitchen to be labour, because he is paid for his cookery. But the work performed by a housewife cooking a meal for her family would not be considered labour - by an Economist - because she is not paid for her effort.

No.3. Primarily, the "division of labour" is the performance of different types of work by different people. However, the modern world of commerce requires that individuals or groups of people not only perform different types of work, but specialise in - or become expert in - the performance of their types of work. Not only that, but for greater proficiency it might be necessary to divide types of work, and even to subdivide those divisions into individual task or groups of closely related tasks.

Possible advantages to be gained from the division of labour include:-

* Because of having only one kind of task to perform, workers can be trained quickly and by continual repetition of the task they will become skilful and thus improve speed and increase quantity of output.

* People can specialise in the kind of task for which they have special aptitude.

* There is a tendency for people to perform best and quickest work which they prefer to be doing, or which they are best able to perform.

* Machines can be made which can perform routine tasks, and they can be operated or controlled by fewer people than would be required if all work was performed manually.

* Businesses can often be established and run with the investment of relatively smaller amounts of capital than might otherwise be required, due to the fact that with specialisation fewer tools and less equipment needs to be purchased, as there is less need for duplication.

No.4. The correct statement from each of the sets selected and ticked:

(a) 3 ☑   (b) 2 ☑   (c) 4 ☑   (d) 1 ☑   (e) 3 ☑

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WHAT YOU WILL LEARN IN MODULES 2 TO 12 OF THE CIC BUSINESS ECONOMICS & COMMERCE PROGRAM

Module 2 - Demand and Supply

- The value of money:
  - its measurement
  - prices
  - purchasing power
- Index numbers:
  - changes in price
  - changes in purchasing power
  - weighting of commodities
  - calculating indexes
  - values and limitations of index numbers
- Business arithmetic:
  - fractions:
    - unequal fractions
    - proper fractions
    - improper fractions
    - mixed fractions
  - percentages
  - decimals:
    - decimal fractions
- Graphs:
  - uses
  - relationships shown
  - construction
- A business person's view of a market:
  - definition
  - market share
- An Economist's view of a market:
  - definition
  - interaction
  - function
- Demand and quantity demanded of products
- Supply and quantity supplied of a product
- Equilibrium price and quantity:
  - when equilibrium occurs
- Demand and supply curves:
  - meanings
  - construction
  - information shown
- Effects of price changes on the market:
  - excess supply
  - excess demand
- Buyers' choice whether to purchase or not
- Judging equilibrium price:
  - newspapers and journals
  - observation
- Factors affecting demand and the demand curves:
  - complementary goods
  - substitute goods
  - the incomes of purchasers
  - preferences and fashions
  - numbers of potential buyers
  - population changes

Movements of the demand curve:
- changes in demand and equilibrium

Changes in supply:
- prices
- profits
- efficiency
- investment

Factors affecting supply and the supply curve:
- technology
- costs
- external regulations

Movement of the supply curve
Equilibrium changes

Module 3 - The Role of Commerce

What commerce involves
Products:
- goods and services

The public sector
The private sector

Categories of enterprises:
- industrial:
  - extractive
  - processing and refining
  - manufacturing
- trading/distribution
  - wholesaling
  - retailing
- service-providers:
  - utility organisations
- the interdependence of enterprises

Types of business units:
- sole-proprietor businesses
- business partnership firms
- limited liability companies:
  - the meaning and benefits of limited liability
  - private companies
  - public companies
  - the board of directors:
    - composition
    - its responsibilities
  - the managing director
  - executive and non-executive directors
  - the chairman

Commercial terms explained:
- assets:
  - fixed assets
  - current assets
- liabilities
- debtors
- creditors
- income or revenue
- expenditure
- profit:
  - example demonstrating the need for profit
- loss

Capital:
- the need for initial capital

- raising initial capital by:
  - sole-proprietors and partnerships
  - limited liability companies
    - company shares:
      - ordinary shares
      - preference shares
      - returns on shares
- Working capital:
  - factors to consider in computing it
  - balancing its composition
- Raising additional capital:
  - additional share issues
  - loans or mortgages
  - debentures
- Types of income
- The Business Plan

Module 4 - Price, Demand and Elasticity

- Price elasticity of demand:
  - definition, measurement and calculation
  - responsiveness to price changes:
    - increases and decreases
  - characteristics
- Elastic and inelastic demand
- Using elasticity in considering price changes
- Price, quantity demanded and total expenditure
- Changes in revenue caused by changes in price
- Factors affecting price and price elasticity of demand:
  - substitute products available
  - cross price elasticity of demand
  - market structure:
    - competitive markets
    - monopoly
    - oligopoly
  - pricing objectives and strategy:
    - low-price strategy:
      - penetration pricing
      - barrier to entry pricing
      - promotional pricing
    - market-price strategy
    - high-price strategy
  - collaboration and collusion between suppliers
  - need and necessity for a product
  - durability and life-span of a product:
    - durable goods, nondurable goods and fashion goods
  - time factors
  - proportion of income spent on a product
  - changes in income
  - the effect of credit
  - pricing for shortages and excesses of demand
  - marketing and advertising
  - consumer tastes
  - geographical markets
  - immediate or long-term profit/revenue
  - technological improvements
  - business survival and cost covering
  - government intervention

Module 5 - The Distributive Trade

The vital importance of distribution
Channels of distribution
The wholesale trade:
- wholesale businesses - the middlemen
- some advantages of distribution through wholesalers
- some disadvantages of distribution through wholesalers

The retail trade:
- retail businesses and their customers
- distributing direct to retailers and bypassing wholesalers

Groups of wholesalers and retailers
Selecting the right channel(s) for products
Types of retail businesses:
- co-operative enterprises
- chain stores/multiple shops
- department stores
- supermarkets and hypermarkets
- do-it-yourself organizations
- garden centres
- franchising
- mail order business
- door-to-door sales
- unsolicited selling
- methods of selling by telephone
- clubs
- selling on the Internet:
  - websites

Credit in Business

Monthly accounts
Fixed periods of credit
Credit cards issued by banks and credit card companies
In-store credit cards:
- building customer loyalty

Leasing, contract hire/rental
Instalment selling: credit sale agreements
Hire purchase: special features
Consumer protection acts
The importance of credit to industry and commerce:
- how it also helps manufacturers
- how it also helps distributors
- how it also helps consumers

Dangers in allowing credit
Credit policy and credit limits
Credit control

Discounts

Trade discount to wholesalers and retailers:
- RRP and list prices

Quantity discount:
- why it is offered
- possible dangers

Cash discount
Regular custom discount
Prompt payment discount

Module 6 - Documents Used in Commerce

The vital need for information in business:
- internal information
- sources of external information
- types of information
- records

Common forms and business documents:
- manually produced and computerised forms
- descriptions, uses and illustrations of:
  - form-type business letters
  - form-type reply letters
  - quotations
  - estimates and tenders
  - orders and order forms
  - acknowledgements of orders
  - invoices
  - proforma invoices
  - credit notes
  - statements of account
  - bank cheques/checks and counterfoils
  - pay-in or deposit slips and counterfoils
  - receipts for payments
  - petty cash vouchers
  - delivery notes
  - goods received notes
- series of documents

Module 7 - Consumer Choice and Behaviour

Determinants of consumer behaviour:
- budget constraints:
  - preferences and tastes
  - incomes, budgets and prices
- product bundles

Budget lines:
- possible purchases, trade-offs

Consumer choice:
- utility
- relative prices
- consumer utility decisions

Consumer tastes:
- marginal rate of substitution
- diminishing marginal rate of substitution

Indifference curves
- utility levels
- utility maximising points

Consumer choice and changes in consumer income:
- inferior products
- normal products:
  - necessities and luxuries
- movement of budget lines
- income increases and inferior products

Consumer choice and price changes:
  - attainable product bundles and utility
- cross price elasticity of demand and consumer choice
- substitution effect of a price change:
  - product demand ratios, relative utility
- income effect of a price change:
  - purchasing power of budgets
- the combined effect:

substitute and complementary products
shape of indifference curves
forecasts and business predictions

Module 8 - Profit and Turnover

The profit motive
The necessity to make profits
Remuneration and profit:
the meaning of remuneration
why it arises - wages, salary and pay
time rates and piece work rates of pay
distribution of profits
The nature of profits:
how they arise
how profits differ from other form of income
Profits and capital:
why entrepreneurship must be rewarded
Cost and selling prices:
what the cost price really is
example of how it might be calculated
fixed or recommended selling prices
price setting by business people:
factors to consider, the mark-up
Profits and turnover
calculation of percentages of turnover - their uses
the rate of turnover:
method of calculation
the importance of a high rate
ways of improving the rate
Gross Profit
the formula for its calculation
the trading account:
essential information needed
how that information is presented
interpreting the information
gross profit as a percentage of turnover
horizontal and vertical layouts
the inclusion and uses of comparison figures
Net profit:
the real gain of the business
direct expenses or prime cost
indirect expenses or overheads
formula for calculating net profit
the profit & loss account:
why it is produced
information it contains
net profit as a percentage of turnover
depreciation
horizontal and vertical layouts
the inclusion of comparison figures
The significance of gross profit in business management:
the need for a definite minimum size of gross profit
apportioning gross profit to lines, sections or departments
The distribution of profits:
provisions and reserves
why capital is a liability of the business
drawings:
by sole-proprietors and by partners
caution in taking drawings
Costs in manufacturing businesses

types of fixed costs:
spreading fixed costs amongst units of production
types variable costs:
prime costs and supplementary costs:
when the distinction becomes important

Module 9 - Business Finance

The balance sheet:
why it is produced
preparation as at a specified date
what it is designed to disclose
horizontal and vertical layouts
order in which liabilities are shown
presentation of capital position
order in which assets are shown
the inclusion of comparison figures:
two balance sheets, side by side
Interpreting financial statements:
obtaining information about working capital
composition of working capital:
practical example
Cash and funds flow:
cash or funds flow statements:
what they are intended to show
comparative cash/funds flow statements
The danger of overtrading:
how the situation can arise
steps which must be taken to control:
cash flow
amounts due from debtors
stocks of materials and/or goods
payments to creditors
Commonly used accounting ratios:
how to calculate and use ratios for:
gross profit percentage
net profit percentage
return on capital employed
strength of working capital
liquidity comparison
Assessing the performance of a business from:
turnover
gross profit
total gross profit
selling and distribution costs
net profit
Studying the balance sheet of a business
Break-even analysis:
minimum revenue earnings to avoid losses
determining when a profit will be made
the break-even point
changes which can bring about changes in profits
break-even charts:
what they can show - a specimen examined

Module 10 - Production

Objectives in business
Considerations prior to production:
the market
design and technology

production processes
support services
production policy
product range:
specialisation, diversification
Production levels:
the value of costing
optimum level of production
calculating total production costs
Financial considerations
Expansion
Economies of scale:
internal economies
external economies
The size of businesses:
horizontal, vertical and lateral integration
Predominance of small businesses:
demand and supply factors
Location of production:
the general area
the site
Using resources:
problems in combining resources
the law of diminishing returns:
practical example
optimum combination of variable factors

Government Involvement in Commerce

Reasons for involvement
Government income and expenditure
Taxation:
direct taxes on:
income, corporation, capital gains, capital transfer
indirect taxes:
sales tax or VAT, excise duty
local rates
national insurance/social security
tourist and travel taxes
the effects of taxes on businesses

Module 11 - Commercial Services (1)

Services and service providers

Banking

Main reasons for using banks
Basic functions of a bank
Inwards and outwards flows of funds
Cheques:
crossing for security
open cheques
Current accounts:
payments by:
cheques, standing orders, direct debits, transfers
bank charges
Rates of interest:
minimum lending rate
bank base rate
effects of changing rates of interest
Deposit accounts:
notice accounts

fixed or term accounts:
maturity dates
call accounts
Bank credit facilities:
bank loans:
collateral security
interest and repayments
overdrafts:
what they really are
to borrow by loan or overdraft:
comparisons, businesses for which each is best
credit cards
Other bank facilities

Insurance

Spreading the risk
Indemnity:
returning the insured to the same financial position
methods of indemnifying
Differences between insurance and wagering
Types of risks
Risks not insured against - reasons
Secondary functions of insurance:
reducing fear of the future
encouraging confidence to undertake new ventures
releasing money for investment and development
assisting saving
The insurance contract
Classes of insurance business:
life, marine, fire, accident, motor, engineering, aviation
Categories of insurance:
property, liability, person, interest or rights
Uncertainty

Module 12 - Commercial Services

Transport

Its essential role in commerce in:
the distribution of products
the movement of people
Factors in transport efficiency:
economy, speed, convenience, regularity
Rail Transport:
reasons for its decline in importance
its advantages and disadvantages
developments:
containerisation
special transporters
Road Transport:
reasons for its expansion
its advantages:
door-to-door service, flexibility, economy
its disadvantages:
diseconomies, travelling time, social consequences
Own-vehicle transportation:
advantages and disadvantages
Inland waterways
Internal air services
Pipelines
Sea Transport:
passenger liners, passenger cargo liners and tramps
coastal shipping

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- bulk carriers
- roll-on-roll-off ferries
- requirements for efficient sea transportation

Air Transport:
- factors which offset higher charges

Choosing the form of transport: factors to consider

Documents used in transportation:
- delivery note, charter policy, consignment note, bill of lading, shipping note, air waybill, certificate of insurance

Communications

The need for effective communications in business

Methods of communication:
- oral communication:
  - what it involves, advantages and disadvantages
- written communications:
  - when they are essential or preferable
  - types of written communications
  - methods of posting and postage rates
  - types of mail
- telecommunications:
  - fax transmission, telegrams, telex, e-mail

Factors in selecting the most appropriate method:
- speed, accuracy, record, safety and confidentiality

Advertising and Sales Promotion

Advertising:
- its primary aims
- the media - what they are
- direct and indirect advertising

Sales promotion:
- how it differs from advertising
- special offers: 12 examples of what might be involved

International Trade and Export Business

Reasons for embarking on exporting

International trade:
- visible trade and invisible trade
- balance of payments

Government control over:
- imports
- foreign exchange
- rates of exchange
- customs duties

Advantages to businesses of exporting

Payments for exports:
- the documentary bill of exchange
- letters of credit
- other methods of payment