‘O’ LEVEL

COMMERCE

NOTES

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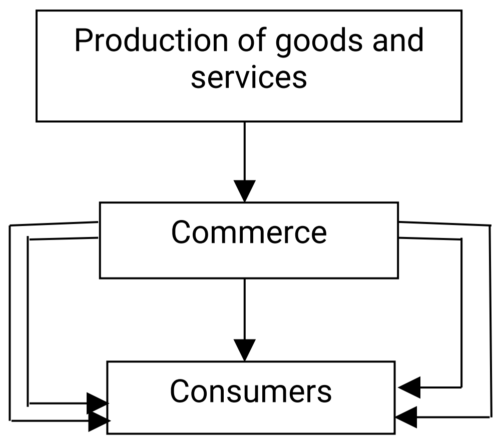
THE SCOPE OF COMMERCE

Definition

Commerce is the study of the way man organizes the exchange and distribution of goods and services to satisfy his needs.
Or
Commerce is trade and aids to trade.

Commerce involves all those activities which aid the passage of goods from the producer to the final consumer.

Illustration of the position of commerce in the production process



TRADE

Trade is the buying and selling of goods. It is divided into two where we have

i. Internal trade/home trade
ii. International/foreign trade

INTERNAL/HOME TRADE

This is trade carried out between traders of the same country.

Internal trade involves wholesalers and retailers.

(i) **Wholesale trade**

This is a type of trade where traders buy goods in large quantities and sell them also in large quantities.

(ii) **Retailers**

These are traders who buy goods from wholesalers and sell them in small quantities to the final consumers.

INTERNATIONAL/FOREIGN TRADE

This is trade carried out by traders of different countries.

International/foreign trade involves import trade and export trade:

(i) Import trade

This is the buying of goods and services from other countries into a home country e.g. Ugandans buy cars from Japan.

(ii) Export trade

This is the selling of goods and services to other countries e.g. Uganda sells coffee to United Kingdom.

AIDS TO TRADE

These are services which help in the production and distribution of goods. Without them trade would be very difficult to be carried out. They include the following:-

i. Transport
ii. Banking
iii. Advertising
iv. Insurance
v. Warehousing
vi. Communication
vii. Market research

Transport

This is the process that involves movement of people, goods and services from one place to another. This can be done by roads, railway, air, water etc.

Banking

These are financial institutions which receive money from the public and safe guard it e.g. commercial banks, developing banks, central banks etc.

Advertising

These are means by which producers or sellers make their goods known to the public so that the public can buy them. It can be done through newspapers, radios, televisions etc.

Insurance

This is an aid to trade which compensates people who suffer losses. E.g. through robbery, accident, fire, death etc.

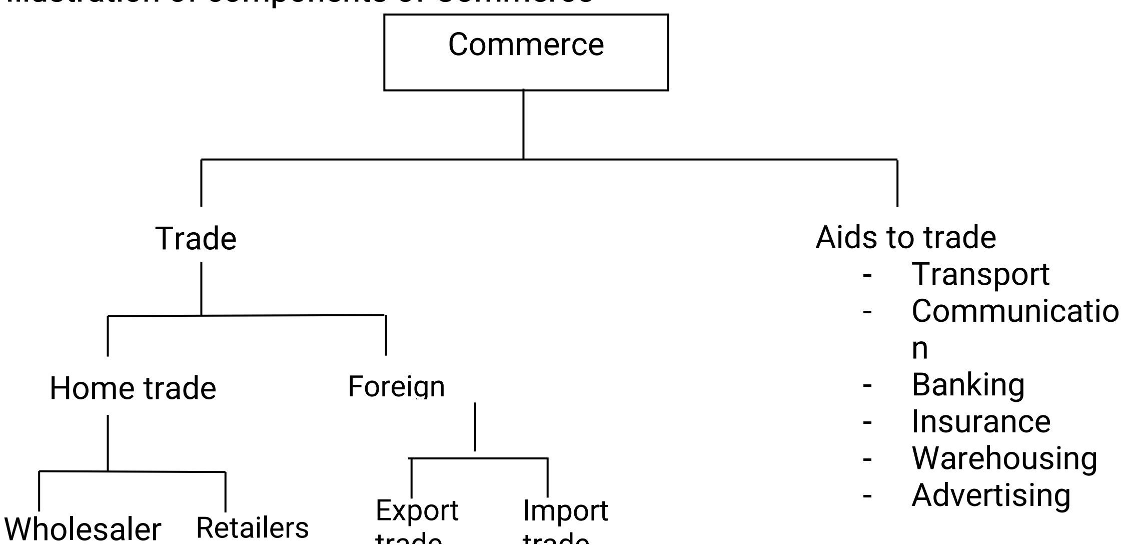
Warehousing

This is concerned with providing storage facilities for raw materials and goods ready for consumption until they are required.

Communication
This is the transmission of commercial information from one businessman or firm to another. It would be done through telephone, letters, internet, fax and others.

Market Research
It is a process of finding out people's opinions about the goods and services of the producer.
The information compiled assists the producer to produce goods needed by consumers in regard to their demand. For example; size, price, color e.t.c

Illustration of components of Commerce



Why we study Commerce?

i. The study of commerce provides a very good introduction to the study of accountancy, economics and law.
ii. It provides students with knowledge of the facilities available at the banks, post office, insurance companies etc to make use of such facilities.
iii. Commerce provides students with knowledge that enables them to know the functioning of the business world.
iv. The study of commerce equips students with commercial language used.
v. Students acquire the basic commercial knowledge for purposes of employment after school e.g. to act as efficient transporters, bankers, advertising agents etc.
vi. Students come to understand the marketing techniques used.

Importance of Commerce

i. Commerce bridges the gap between the producer and the consumer by ensuring that goods and services reach consumers e.g. transport, communication etc.

ii. It encourages specialization whereby a person concentrates on one type of work he is most suited and this brings about quality work and increased production.

iii. It ensures that goods produced in the current period are available for consumption in the future. It is done through warehousing.

iv. It also helps in securing capital for further production. This is basically through banking services.

v. It enables continuous production because it safeguards against loss of valuables. This is done through insurance.

vi. Commerce informs the general public of the availability of goods and their quality, prices etc and this is done through advertising and sales promotion.

vii. People can get what they cannot produce because commerce attempts or enables the exchange and distribution of goods and services.

viii. The existence of commerce creates competition among producers. This in turn leads to improved quality of goods and reduction of prices hence benefiting the consumers.

ix. It creates utility in goods and services. Utility is the satisfaction derived from consuming commodity. Utility is created through the production process.

x. It creates employment to many people who include the following e.g. teachers of commerce, traders, bankers, wholesalers etc.

TYPES OF GOODS

A good is anything tangible that has utility. A tangible thing is something that can be seen, touched, felt and moved. Below are the types of the goods:-

(i) Free goods

These are goods which are abundant in supply and are consumed free of charge. They are provided by nature e.g. rainfall, sunshine, air etc.

(ii) Economic goods

These are goods that are scarce in relation to people's desire to them. They have money value and capable of being exchanged and have utility.

(iii) Consumer goods

These are goods that have reached their final stage in the production process and are ready for consumption. They are also called final goods.

(iv) Producer goods (Capital goods)

These are already produced goods which are used in the production of other goods and services e.g. computers, sewing machines, tractors, printing machines etc.

(v) Private goods

These are goods owned and controlled by individuals e.g. private motor cars

(vi) Public goods

These are goods owned and used communally by all people living in a given society e.g. roads

(vii) **Intermediate goods**
These are goods which are still undergoing production process and not yet ready for consumption e.g. cotton, threads etc

PRODUCTION

Definition:
Production is any activity that creates goods and services to satisfy man's wants or needs. It can as well be defined as utility.

Utility is the ability of goods and services to satisfy human wants.

Levels of Production
The production of goods and services can be defined at three levels i.e. primary, secondary and tertiary production.

a) **Primary production (Extractive industry)**
This level deals with extraction of materials from their original natural state. The major purpose of this industry is to provide raw materials. Activities involved at this level include; mining, fishing, agriculture, lumbering etc. This production level is the first stage in the production process.

b) **Secondary production**
This level of production is concerned with the transformation of raw materials got at the first stage of production into a better form. At this level, raw materials from their natural stage are worked on by changing their physical form to produce things of a higher value. It involves manufacturing and construction industries.

i) **Manufacturing industry**
This includes activities and processes aimed at transforming materials obtained. E.g. oil refinery, food processing, mineral smelting, fish canning etc.

ii) **Construction industry**
It deals with producers engaged in setting up structures e.g. roads, building houses, building bridges etc.

c) **Tertiary production**
This deals with the provision of services. Tertiary producers are those who produce various kinds of services. These services may be commercial or direct services.

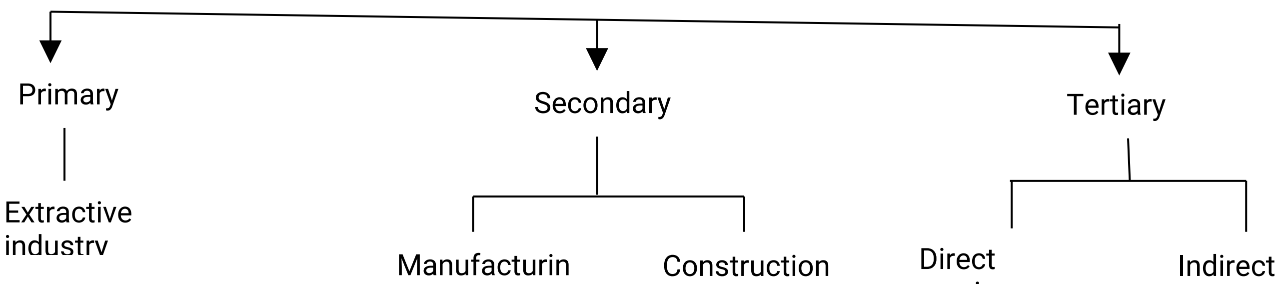
(i) **Direct services**

These are services which we cannot see physically done for us and yet they satisfy our needs. They are services which have direct contacts with people e.g. teachers, doctors, lawyers, drama actors, musicians etc.

(ii) Commercial services

These are services provided by the business community and they are the aids to trade e.g. transport, communication, banking etc.

Levels of production



Direct and Indirect Production

Direct production

This is production for own consumption. It may also be called subsistence production e.g. a person grows food for his/her own consumption and not for sell, a person catches fish for his own consumption, a person making a chair for his own consumption etc.

An economy where people produce for their own consumption is called a subsistence economy.

Indirect production

This refers to production of goods and services for others. It is also called commercial production. It is associated with division of labour and excess production where the surplus is sold and money earned for buying other things.

FACTORS OF PRODUCTION

These are things needed for production e.g. land, labour, capital and entrepreneurship or organization.

(i) Land

It refers to all gifts of nature used in production process. Such gifts should be on/under the earth's surface and it includes water, climate, air, soil and light. The reward for this factor is rent.

(ii) **Labour**

This is man's physical and mental effort to do work. Labour has to be aimed at production and at the same time paid for. Labour may be skilled, semi-skilled, unskilled and professional. The reward for labour is wage/salary.

(iii) **Capital**

These are the already produced goods used in the production of other goods and services. It refers to all those goods that are man-made and are helpful for further production e.g. tools, machinery, furniture, buildings etc. Capital is categorized into real and monetary capital.

a) **Real capital (Physical capital)**

These are assets used in the production of other goods.

b) **Money capital (liquid capital)**

This is money/items close to money like cheques, bank drafts, treasury bills that can be used to meet the day to day demands in production process. Payment for capital is interest.

(iv) **Entrepreneurship (organization)**

This is a factor of production that organizes land, labour and capital to produce goods and services. Therefore an entrepreneur is a human being who determines what to produce, where to produce, for whom to produce, when to produce etc. An entrepreneur is paid profits.

Functions of an entrepreneur

i. An entrepreneur initiates and starts the business.
ii. He organizes/employs land, labour and capital to produce goods and services.
iii. He supervises the production process.
iv. He sells the products to the market.
v. He pays land, labour, capital and takes the responsibility of profits and losses in an organization.

SPECIALISATION AND DIVISION OF LABOUR

Specialization

This is where an individual, organization or a country concentrates in doing an activity that can do relatively best and leave other activities to be done by others.

Division of labour

This is where the production process is broken down into small parts and an individual is assigned a smaller part on which to concentrate i.e. the production process is divided into tasks where each task is performed by a different person or group of person.

Major purpose of specialization is to increase output.

TYPES OF SPECIALISATION

a) Specialization by process or subject

This is where production is broken down in several parts. Work is divided into a number of stages each being taken by a different state of people. E.g. in school, each subject is handled by different teachers.

b) Specialization by commodity

This is when a person, household or organization produces an entire commodity/commodities e.g. a car dealer, a driver, a farmer growing coffee only etc.

c) Specialization by area or tertiary (geographical specialization)

This is where a certain region specializes in the production of a particular commodity e.g. tobacco growing in West Nile.

d) International specialization

This is when country concentrate in the production of given commodity where it has lower cost compared to others and leave other commodities to be produced by other countries e.g. Libya specialize in the production of petroleum products.

ADVANTAGES OF SPECIALISATION AND DIVISION OF LABOUR

Specialization and division of labour has got a number of benefits including the following:-

i. It increases output of goods and services. This is because one is able to master the production process.
ii. It speeds up production because each person or firm concentrates on the job he or it can do best.
iii. It saves time and energy. This is because if a person concentrates on one type of work, he saves the time that would have been lost moving from one job to another.
iv. It increases the workers skills due to constant use of the same tools thus earning him confidence.
v. It facilitates/simplifies training. This is because learning how to perform a single task requires less time than many tasks and also training costs are minimized.
vi. It allows people to pursue different opportunities because it allows them to use their talents on those activities they can do best i.e. permitting choice.
vii. Regional specialization enables countries to exploit their national resources and get what they cannot produce from other countries.
viii. It eases the task of workers because specialization permits the use of same tools specific
ix. to a particular task.
x. It increases discoveries and innovations. This is because of the constant use of same tools which challenge workers to find better methods of production.

xi. It enables workers to become less tiresome. This is because if the individual does the small task over and over again, they discover new and easier ways of doing their work which enables them to spend less energy on their particular tasks.
xii. It results into efficiency. This is because a person concentrating in doing one thing will master the best ways of doing it and this will increase the quality of his output which will benefit the entire community.
xiii. It allows the disabled to perform a limited range of activities and hence ensuring their employment.
xiv.
xv. It promotes self confidence among workers. This is because workers exercise a lot of independency in their work which make them feel important, confident and proud of their work.

DISADVANTAGES OF SPECIALISATION AND DIVISION OF LABOUR

Specialization and division of labour have the following disadvantages:-

i. It leads to boredom. This is because doing of same work repeatedly can easily make the worker tired and bored. This may result into inefficiency.
ii. It may result into unemployment especially when many people specialize in a particular activity they may not find the job opportunities to absorb them.
iii. It discourages the development of other talents and skills. This is because it does not give an opportunity to try their skills/talents elsewhere.
iv. It increases dependency. This is because when a person/country specialize in production of one good, it becomes dependent on others for those goods it cannot produce.
v. It reduces the mobility of labour i.e. a person trained for a particular job finds it difficult to get employed elsewhere unless he is retrained in the other field.
vi. It results into a fall in craftsmanship. Specialization kills the creativeness and craftsmanship of an individual. This is because when one concentrates on a task which he can do better, he cannot think of initiating a new task outside his area of specialization.
vii. Lack of diversification. Diversification is where the producer engages in the production of many tasks concurrently. This cannot be achieved with specialization.
viii. It may result into shortages in supply. This is because a mal function in one department will affect the process of production causing a shortage.
ix.
x. It results into uneven development. This is because when there is geographical concentration of activities in one area such an area will develop more than other areas of the country e.g. Kampala has more industries and developed infrastructure than all other parts of the country.

DEMAND
This refers to the quantity of goods and services which consumers are willing and able to pay for at a given price over a given period of time. i.e. it is a desire backed by the ability to buy or possess a commodity at a given period of time.

The de

mand schedule

This is a table showing different quantities of a commodity which consumers are willing and able to purchase at different prices over a given period of time.

Illustration for the demand schedule

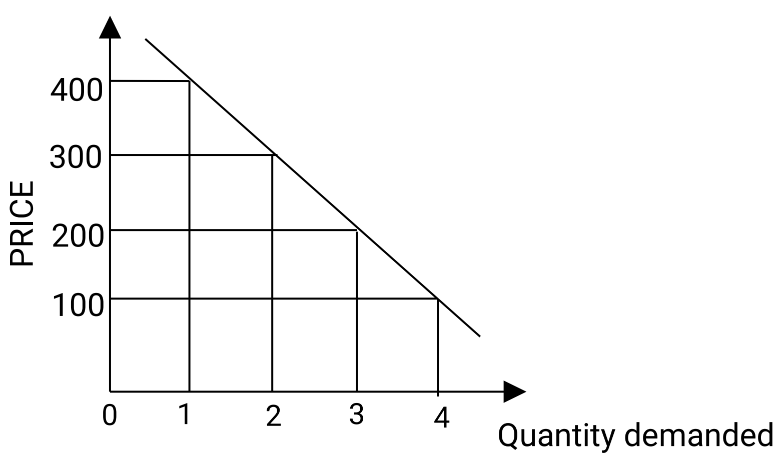
Namusisi’s demand schedule for chapatis

Price	Quantity demanded
100	4
200	3
300	2
400	1

The table above indicates Namusisi’s demand for chapattis at different prices.

From the above table, a demand curve can be drawn.

It is a graphical representation of the demand schedule. From Namusisi’s demand schedule of chapattis, a demand curve can be drawn as below.



From the diagram above, it can be observed the demand curve slopes downwards from left to right indicating an inverse relationship between quantities demanded and price. This leads us to the law of demand.

LAW OF DEMAND

It states that the higher the price the lower the quantity demanded and the lower the price the higher the quantity demanded keeping other factors constant.

FACTORS AFFECTING THE DEMAND FOR COMMODITY

1. Price of commodity

The higher the price of the commodity in the market the less demanded and the lower the price the greater the quantity that will be demanded.

2. Income of consumer

The higher the income of the consumer, the higher the demand and the lower the income of the consumer, the lower the quantity is demanded.

3. The size of the population

When the population is high, there is high demand for goods and services and when the population is low, the demand for goods and services is also low.

4. Season

When season is favourable for a given commodity, demand tends to be high and when the season is unfavourable, demand becomes low.

5. Government policy

When the government taxes are more of the consumers, it reduces their income hence less demand. And if the government lowers the taxes, demand will be high.

6. Sociological factors

Demand for a commodity may be influenced by such factors as a person's background, education, status, age and place of residence.

7. Rate of advertising

The level of advertising has been known to influence the demand for products. The higher level of advertising, the higher the demand.

8. Preferences of consumers

Preferences of different consumers differ thus a change in taste in favour of a commodity increases its demand while a change in taste against the commodity reduces its demand.

9. Price of complementary goods

These are goods which are consumed together e.g. shoes and shoe polish, bread and butter etc. If the price of shoes is lowered more shoes will be demanded and also the demand for shoe polish will increase. An increase in price would result in reduced demand for both.

SUPPLY

This is a table showing the amount of a product which producers are willing to put on market at different prices.

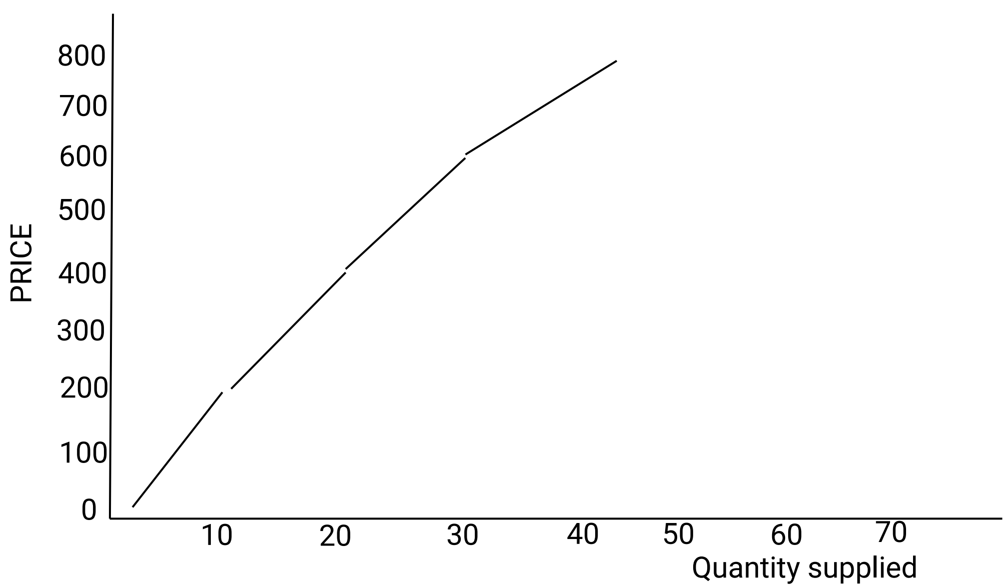
Below is an example of a supply schedule.

Mukisa's supply schedule for chapatis.

Price	Quantity supplied
800	500
600	300
400	200
200	100
100	50
50	0

From the supply schedule above, a supply curve can be formed.

A **supply curve** is a locus of points indicating the price quantity combinations of goods supplied at different prices i.e. it is a graphic representation of the supply schedule.



From the diagram above, it can be observed that there is a positive quotation between the quantity demanded and the price as indicated by the supply curve where at higher prices more is demanded. The curve above further indicates the shape of the supply curve sloping upwards from left to right. This brings us to the law of supply.

THE LAW OF SUPPLY

The law of supply states that the higher the price, the higher the quantity supplied and the lower the price, the lower the quantity supplied keeping other factors constant.

FACTORS AFFECTING SUPPLY

These are the things which determine the amount of products to be on market during a given period of time. They include the following:-

1. **Price of commodity**

A high price motivates suppliers to supply more in order to maximize their products on the other hand it will be less profitable when the prices go down and this will discourage suppliers to put goods on market.

2. **Natural factors:**

Factors like season, pests and diseases, drought etc, affect the production of especially agricultural prices and hence the supply of such products.

3. **Changes in course of production:**

An increase/decrease in factors of production such as labour costs, rent, raw materials etc will affect the supply of products.

4. **Technological changes:**

Changes in techniques of production e.g. improvement in the technology used within a firm will result into increased output of commodities and hence increase its supply. The reverse is true with technology.

5. **Government policy:**

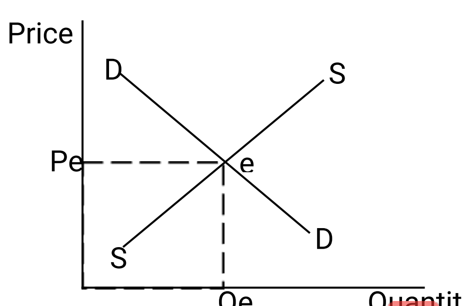
Government policy may discourage the supply of some products by taxing them highly, banning them, putting restrictive quotas on them etc. On the other hand, government may encourage the supply of given products through subsidies, tax holiday and other incentives.

6. **Transport:**

An efficient transport system eases the movement of goods and services and therefore increases the supply of goods while a poor transport system discourages transport.

THE INTERRACTION OF DEMAND AND SUPPLY

This is where the demand and supply forces meet to determine the price of commodity as illustrated below.



e is the point of equilibrium
Pe is the equilibrium price
Qe is the equilibrium quantity

S

In the diagram above, the demand and supply curves at point e which is point of equilibrium. At that point Pe is the equilibrium price while Qe is the quantity of equilibrium. Such a price is normally the ruling price under a free market economy.

RETAIL TRADE

This is a type of trade where goods and services are sold to consumers. Retailing is the selling of goods to consumers irrespective of the person doing it or the quantities involved.

A retailer is a trader who is engaged in retail trade and only sells goods to the final consumers however retail trade can be undertaken by people who are not retail traders by definition. E.g. manufacturers and wholesalers.

Retail trade is classified

Functions of a retailer into two categories i.e. small scale and large scale retail trade.

Small scale retailers include hawkers, itinerant traders etc while large scale includes supermarkets, multiple shops, departmental stores etc,

The retailer is a very important person in the chain of distribution because he offers various services to consumers, producers and wholesalers.

To the consumers:

i. He sells goods to consumers in affordable quantities.
ii. He provides a variety of goods to consumers.
iii. He advertises goods to consumers thereby creating awareness about the availability of goods.
iv. A retailer provides transport to consumers especially those who buy in large quantities.
v. He stores goods and enables consumers to collect them from him anytime.
vi. Retailers advise their customers about how to use and handle some goods.
vii. Retailers sometimes advise their customers on the choice of goods suitable for them. It is common especially with clothes.
viii. Some retailers give discounts to customers in form of reduced prices.

ix. They allow credit facilities to their trusted customers.
x. Some retailers provide after sale services to their customers which may include installing equipment and guiding them on the techniques used in handling them especially electronics.

To the producers:

i. He communicates the consumers' complaints regarding the goods or services he produces.
ii. He advertises goods for producers.
iii. He looks for market for goods e bought from producers.
iv. He provides transport for goods bought from producers.

To the wholesalers:

i. He buys goods from the wholesalers in large quantities.
ii. He provides transport for goods brought from the wholesaler hence saving him the burden.
iii. He acts as a link between the wholesaler and the consumers.
iv. He advises the wholesaler about the complaints of the consumers.
v. He relieves the wholesaler from the building of warehouses.
vi. He helps a wholesaler to advertise departments.

QUALITIES OF A GOOD RETAILER

The following qualities are very essential for the success of a good retailer. This is because they will attract and give confidence and trust in the retailer by their customers.

i. He should be honest to his customers by not over charging them and selling the right quantities and qualities.
ii. He should be pleasant and kind to both his suppliers and customers.
iii. He should be able to serve his customers for long hours and therefore should be hardworking.
iv. He should be clean to attract his customers and trust that the products he is selling are also clean.
v. He should be closer to his customers i.e. his business undertaking should be situated as near as possible.
vi. He should be able to stock goods wanted by his customers at the right time.
vii. He should be able to settle debts with his the suppliers promptly.
viii. He should be able to offer credit facilities to trusted customers.
ix. He should be able to appropriate his customers by offering discounts, free gifts on special days like Christmas.
x. He should be flexible where fashions and tastes of his customers are concerned.
xi. He should be able to audit his books of accounts and able to determine whether the business is making profits or losses.

FACTORS CONSIDERED WHEN SETTING UP A RETAIL BUSINESS

1. **Type of good:** A retailer should look out for the type of goods needed by the general population he serves e.g. electronics have high demand in urban areas

than in rural areas.

2. **The cost of rent:** Rent should be relatively cheap so that it does not take up much of the profits of the business.

3. **The number of customers in an area:** A retailer should always consider the population of an area and choose that one which is highly populated because he will have more customers in such an area.
4. **Possibility of expansion:** A retailer should consider a location where there is possibilities of expansion for the business.

5. **Other shops:** One should consider the population he is likely to meet from similar retail businesses which are nearby and already in existence and the type of goods they sell.

6. **Capital:** A retailer should consider the capital involved in setting up a business. If he has large capital, he sets up a large retail business and if he has little capital he sets up a small retail business.

7. **Supply shops:** A retailer should consider the source of supply of stock for his business. i.e. it should be far away and making it very expensive to access the goods.

8. stock for successful business operation i.e. the business should be set up where the possibility of theft and murder is minimal.

TYPES OF RETAILERS

Retailers are generally divided into 2 groups namely:

a) Small scale retailers
b) Large scale retailers

SMALL SCALE RETAILERS

These are retailers selling goods to the final consumers on a small scale. They are characterized by the following:-

i. They employ little capital and therefore hold little stock.
ii. They serve a small market.
iii. They occupy relatively small premises.
iv. They usually deal in variety of goods and they employ very few workers and in many cases one person is involved in selling the goods who is usually the owner of the business.
v. In Uganda, small scale retail businesses are dominant and constitute about 90% of the entire trade sector.

Types of small scale retailers

1. Itinerant traders

These are traders who sell their goods while moving from place to another. The term itinerant means moving from one place to another. These traders move with bags holding items. They usually operate in towns and in densely populated areas. The kind of goods they usually trade include: cosmetics, shoes, plates, necklaces etc.

A. Hawkers: These are traders who move on foot with their goods from one place to another selling them to customers. They usually carry light goods moving from one village to another.

B. Peddlers: These are retailers who move from one place to another using bicycles or motorcycles as they look for customers.

C. Roadside traders/street traders: These are found along side roads where many people pass. They deal in some commodities e.g. cigarettes, sweets etc. They are very common in the city especially during evening hours and they sell food stuffs e.g. bread, milk etc.

Advantages of itinerant traders

i. They require little capital to start the business.
ii. They have personal contact with their customers which increase their sales.
iii. They face very low overhead costs e.g. many do not pay rent, water bills, electricity bills etc.
iv. They bring goods near to their customers who would have travelled long distances to get them.
v. They enjoy all profits.
vi. They are flexible in that they can easily change from one line of business to another.
vii. They are very keen in bargaining such that they gain a lot of capital.

Disadvantages

i. They take advantage of customer ignorance and end up overcharging them.
ii. They move long distances which make them very tiresome.
iii. They are usually affected with weather changes e.g. rainfall and sunshine.
iv. They dodge paying taxes because of lack of permanent places leading to loss of government revenue.
v. The life of the business depends on the owners life i.e. if he dies the business also dies.
vi. They normally sell defective products e.g. expired products to their customers.

2. Village stores/unit shapes

These are found in rural areas. They normally deal in essential commodities demanded by villagers e.g. salt, paraffin, match boxes, needles etc.

The owners of these shops normally open them for a few hours a day especially in the afternoon but they are usually closed in the morning because the owners are practicing agriculture in their garden to supplement their incomes.

3. **Market traders**

These are traders with permanent stalls in markets from where they sell their goods. Some market traders move from one town to another on various market days selling goods to customers. However some market traders on irregular basis sell their products on their stalls in the markets which operate daily. They mainly deal in food stuffs, textiles, household utensils etc.

4. **Single shops:**

These are fixed stores normally owned by one person. These are usually self controlled and owned and are not connected with any other shop. They are usually managed by a sole trade and some time employs one or two assistants.

They usually specialize in selling one product or related range of products e.g. stationery, medicines, textiles etc.

5. **Tied-up shops**

These are shops that sell the products from only one manufacturer. They sell no other product apart from those of a given producer e.g. petrol stations.

6. **Urban stores**

These are found in town centres. These shops are distributed in such a way that those selling similar products are found in the same area. Urban stores practice some specialization e.g. those in Kampala selling stationery products are found on Nasser street, those who deal in hardware are found in Nakasero street and those for spare parts on Kisekka street and those for clothes and textile on Luwum street.

7. **Kiosks:**

These are businesses operated in very small semi permanent premises built of wood or metal selling variety of goods e.g. milk, bread, airtime, newspapers, cigarettes, sweets etc.

8. **Canteens**

These are small scale shops located in schools, hospitals, prisons and other institutions providing goods specific for the community they serve e.g. in school canteens, one may find books, quencher, biscuits bit one cannot find alcoholic products in these canteens because they are not allowed in the community.

9. **Automatic vending machines**

This involves the selling of goods to final consumers through coin operated machines. This method is usually used for goods like newspapers, stamps, telephone etc.

Advantages

i. They save the customers' time. i.e. the goods and services are provided instantly on placing in the coin.

ii. They operate 24 hours a day hence always available for use.
iii. They are very accurate and give no room for cheating.

Disadvantages
i. It can be used to sell only few items
ii. It is a very expensive method to start i.e. such machines are very expensive.
iii. Sometimes customers can cheat using fake coins.
The customers can be inconvenienced if such machines are out of orderSecurity concerns: A retailer should ensure his personal security and security of his
iv. .

LARGE SCALE RETAILERS
These are retail businesses operating on a large scale. They are not very many in East Africa and Uganda in particular.

Features of large scale retailers
i. They operate with very large capital
ii. They occupy permanent premises
iii. They sometimes practice some specialization e.g. they may deal in hardware materials, textiles, furniture etc.
iv. They serve a wide market.
v. They enjoy large profits because they operate as large scale.
vi. They are in many cases owned by several people.
vii. They are usually located in urban areas.
viii. They occupy premises because they are on large scale.
ix. They hold large stocks.

TYPES OF LARGE SCALE RETAIL BUSINESS
a) Multiple shops
These are various shops usually spread throughout the country dealing in a given line of goods and services and are owned by one organization e.g. Bata shoe companies, MTN outlets etc.

Features of multiple shops
i. They are under one ownership and control.
ii. They have numerous branches all over the country or entire world.
iii. They sell one type of related range of products e.g. Bata Shoes companies sell foot ware products.
iv. Profits and distribution of profits are done at the head office.
v. They always keep a large stock.
vi. They have centralized buying and administration and usually buy directly from the manufacturer.
vii. The prices of goods are the same in all branches.
viii. They do not usually offer credit facilities.

Advantages

i. They sell at relatively cheaper prices than the small scale retailers.
ii. They take goods as nearer as possible to their customers by having different shops spread throughout the country.
iii. A shortage in one branch can be solved by transferring stock from other branches to fill in that gap.
iv. They are large scale businesses and they enjoy high profits.
v. Each branch advertises the other because they are similar in dealing in similar products.
vi. The business is run on cash basis which reduces the chances of bad debts.
vii. Buying is done by experts who purchase suitable for their customers.
viii. The losses incurred by one branch can be offset by another branch.

Disadvantages

i. They are normally located in urban areas thereby neglecting rural ones.
ii. They do not offer variety of goods because they specialize in one range of products.
iii. They are not flexible because they operate on a large scale.
iv. The decision from the head office may affect all branches e.g. wrong pricing of a particular item.
v. They rarely offer a credit facility which is a disadvantage to customers who receive their money in installments.
vi. They incur a lot of expenses in operating very many branches which reduce their profit margin.
vii. If there is a fall in their products, they are likely to face bigger losses.
viii. There is lack of personal contact between the employers and the employees which may limit information flow for improved productivity.
ix. They sell goods with fixed prices therefore bargaining is discouraged and this may scare away potential customers.

b) Super markets

These are large retail stores which normally stock household products in large varieties and offering self service.

Examples of supermarkets in Uganda include:- Shoprite, Capital shoppers, Game, UCHUMI, Quality Supermarket, Mega Standard etc.

Very large supermarkets selling a wider range of goods under cash and carry basis are referred to as hyper markets (Jumbo markets)

Features of supermarkets

i. They use a self-service system.
ii. They normally deal in household products.
iii. Goods are well displayed and prices are indicated on the items using price tags.
iv. There is enough room for free movement of customers within the shop.
v. Goods are arranged attractively in the store.

vi. They are usually located in urban areas.
vii. The business is run on cash basis.
viii. They offer goods at relatively cheap price.
ix. They have a tight security system which monitor the possibilities of theft.

Advantages

i. Goods in supermarkets are relatively cheap.
ii. They offer variety of goods hence giving the customer a wider range of choice.
iii. A customer can make one stop shopping because of the variety.
iv. They save time since a customer is saved from the burden of bargaining and asking about prices of goods.
v. They do not offer credit facilities thereby guarding against bad debts and book keeping by the sellers.
vi. They make large sales and therefore achieve a high stock turn over compared to small scale retailers.
vii. They employ few workers since they use self-service system thus cutting down labour costs.
viii. Since prices are well displayed on the goods, a customer is given time to make up his mind about the item to buy.
ix. They enjoy large profits compared to small scale retailers.
x. They have no shop attendants which safeguards from unnecessary persuasion.

Disadvantages

i. There is no room for bargaining since prices are fixed.
ii. They do not give a chance to customers with nor ready cash especially salary earners.
iii. They are found only in urban areas neglecting the rural areas.
iv. They face high operation costs in form of rate and taxes because they occupy central sites especially along busy streets.
v. They require a lot of capital to start and maintain.
vi. They encourage unplanned spending since at times customers are often attracted to buy goods they did not intend to buy or budget for.
vii. They do not offer after sale services.
viii. Small items may be pocketed by customers without paying for them.
ix. A customer may take a long time by visiting the entire supermarket unknowingly.
x. They do not offer delivery and advice to their customers.

DEPARTMENTAL STORES

These are several shops under one roof and one management. Each shop (department) is under a manager and sells different items from others. E.g. a department selling men’s wear, food stuffs, electronic department, bookshop etc.

Features of a Departmental stores

i. There are many departments under one roof.
ii. All departments are under one management
iii. Each department is controlled by a manager who is responsible for stocking his

goods.

iv. They are usually found in urban centres.
v. Each department specializes in a particular good different from others.
vi. They provide all other services to their customers e.g. banking, telephone services etc.

Advantages of Departmental stores

i. Each department advertises other departments.
ii. They provide variety of goods to customers.
iii. They provide additional services to customers e.g. restaurants, video services etc.
iv. They offer one stock shopping i.e. which saves the consumer time running all over town looking for goods.
v. They tend to sell at a low price due to large discounts they enjoy for bulk purchases.
vi. They enjoy large profits because of a large stock hold.
vii. If one department makes losses, these losses can be offset by profits made by other departments.

Disadvantages of Departmental stores

i. They do not offer credit services to their customers.
ii. The business requires large sums of capital to start and maintain.
iii. They are normally found in urban centres.
iv. They pay a lot of expenses e.g. high taxes, rent, advertising costs etc.
v. They normally sell goods at high prices as compared to other retail shops due to high expenses paid thereby discouraging low income earners from buying from them.
vi. They need to employ experts e.g. managers, accountants etc who are in most cases expensive.
vii. Shortages in one department cannot be solved by transfer of goods from other departments since they sell different items.
viii. They tend to offer delivery services to those who buy in large quantities and this increases overhead expenses.

MAIL ORDER BUSINESS

This is a kind of business where goods are ordered and sold through the post office. Normally the buyer makes a letter of inquiry through the post office to the supplier and in reply the supplier sends a catalogue to the buyer of what he/she wants and places order for them. This system is convenient for small items.

Mail order businesses do not normally have shops but they have large stores where they keep goods awaiting orders from their perspective customers.

Features of mail order businesses

i. Goods are ordered for and sold through the post office.
ii. The business is promoted through attractive advertisements and describing goods using catalogues.
iii. There is no personal contact between the buyer and the seller.

iv. Payment facilities are provided through the post officer through a cash and delivery service.

Advantages of mail order businesses

i. It does not pay many expenses for rent or hiring.
ii. It eliminates transport expenses because goods are delivered through the post office.
iii. The cost of shop attendants are reduced because these businesses do not operate shops but stores.
iv. It eliminates middle men with their associated evils like overcharging.
v. Goods are easily delivered to people however for they are from the shopping centres.
vi. It saves time for their customers who may not have sufficient time for shopping.

Disadvantages of mail order businesses

i. It may not sell bulky products.
ii. There is no physical contact between sellers and buyers which does not promote friendship between the two.
iii. It may not be effective in areas where post office services are poor.
iv. It gives no room of inspecting goods whereby in the process the customer may purchase goods he would not have purchased.
v. It requires continuous advertising and selling of catalogues which increases its operation and later increasing the prices of goods.
vi. A customer has to wait for reasonable period of time to receive the goods.
vii. There are difficulties in finding market for goods in this type of business since it does not operate shops.
viii. There is no room for bargaining since prices are fixed.
ix. After sale services may not be possible.
x. Not a variety of goods can be sold by this type of business.

MOBILE SHOPS

These are retail businesses operated on large vans, buses or lorries. They move from one place to another looking for customers. They sometimes move to rural areas at specific days and time. These normally in Uganda are known for selling medicine, books, fruits, bread etc.

Advantages

i. They take goods as near as possible to customers.
ii. They follow a specific timetable which helps customers to know when they are coming to their areas enabling them to buy their products.
iii. They do not pay expenses on rent, electricity bills and therefore they are comparatively run cheaply.
iv. They have operators of mobile stores who have physical contact with their customers which promote good relationships.
v. They sell goods at a comparatively low price.
vi. They operate with a large stock which enables them to get a lot of profits.

vii. They normally have a high turnover which increases their revenue.

Disadvantages

i. They pay high expenses on fuel, repairs and maintenance of the vehicles which reduces their revenue.
ii. Bad weather conditions like rains especially in rural areas may make the operation of this business very difficult.
iii. They are faced with the problem of robbery especially on high ways.
iv. They are not always available for their customers because of their limited services given to them.
v. This business may not be successful especially where some routes are impossible.
vi. They tend to deal in one type of commodity or a line of commodity and therefore do not offer variety of goods to the customers.

CONSUMER CO-OPERATIVE

These are retail businesses where consumers themselves contribute money and go directly to producers to buy goods they require in large quantities and at a low price.

They are mainly established to avoid the exploitation of middlemen who over charge them and give them poor quality products.

Advantages

i. It brings goods nearer to the consumers.
ii. It sells to members at a comparatively low price.
iii. It creates friendship among members.
iv. Members get a fixed rate of interest from the capital contributed.
v. It is democratically run. This is because members elect their own managers.
vi. It promotes consumer sovereignty. This is because consumers themselves determine the type of goods and the price that should be charged depending on the costs.
vii. It promotes employment opportunities among members. This is because some of the members are taken on to run the business.

Disadvantages

i. Decision making may be difficult because of many people involved.
ii. They normally employ little capital which limits their expansion.
iii. They do not provide variety of goods to members.
iv. In many cases, the management of co-operative societies lack business experience.
v. Most of them use little capital and therefore cannot access bank loans due to lack of collateral security.

DISCOUNT STORES

These are retail shops that sell durable products at relatively low prices. They sell their goods on cash basis. These stores mainly handle durable goods e.g. furniture, cookers, refrigerators etc.

Advantages of Discount stores

i. Make items accessible
ii. Make goods affordable.

RECENT TRENDS IN RETAIL TRADE

In the recent years, there have been changes in retail businesses towards modernization and they include the following:-

a) **Branding**

This is the giving of a mark, design or a symbol to a product to distinguish it to other similar goods of other producers. It is normally done by the manufacturers. In Uganda today, branded commodities include; detergents, tooth paste, soap, Vaseline, shoe polish, sugar etc.

Advantages

i. Branding enables people to buy what they want easily because they can be recognized easily from others.
ii. It eases advertising because goods can easily be recognized.
iii. Branded goods are easy to handle by consumers because they are uniformly packed.
iv. Branded goods are pre-weighed which saves time t hat could have been used to weigh the product for each individual customer.
v. Branded goods are normally sold at a uniform price and this curbs consumer exploitation.

Disadvantages

i. It is expensive to brand products which make the final price of the product high.
ii. It is difficult for retailers to offer discounts on such products. This is because prices of such products are uniform.
iii. It requires a retailer to use large capital which may not be available to stock many brands in order to capture the wide range of customers.

b) **Pre-packing (packing)**

This is the wrapping of goods in special containers to protect them against atmospheric conditions especially pouring and contamination. This is usually done before customers come to purchase these goods. They are usually weighed and packed e..g. sugar, milk powder, glucose, biscuits, water, cooking oil etc.

Advantages:

i. They are easy to handle.
ii. When goods are packed well, they look attractive and therefore can easily be bought.
iii. Some packing materials may be put for other uses after removing the goods.

iv. Goods are protected against atmospheric contamination, germs and other things like rodents etc.
v. Packed goods can easily be identified by customers which increases sales and hence profits for the business.
vi. Well packed goods can easily be sold by automatic machines whereby reducing the cost of employing shop attendants.
vii. Packed goods can easily be transacted through the mail order business.

Disadvantages:

i. Packed goods confuse the customers because they tend to appear bigger than the actual size.
ii. Packing will make goods more expensive due to inclusion of packing expenses in the total cost of the product.
iii. Poor quality products may be enclosed in beautiful packets hence attracting one to buy them which is exploiting.
iv. Some package materials are dangerous to the environment and can lead to environmental degradation e.g. polythene bags.

c) Self – service

This is when customers are allowed to enter a shop and pick whatever they want and then take their product to the cashier to pay. These goods are usually displayed in spacious shops with price tags stuck on them. Such shops are not necessary supermarkets but shops with self service facilities.

Advantages:

i. It reduces the cost of paying shop attendants.
ii. It saves time as goods are labeled with their prices.
iii. Goods are beautifully displayed and this attracts customers to buy them hence increasing the sales of the business.
iv. In many cases no credit facilities are given which saves the business from bad debtors.
v. A customer has enough time to make choices among the many types of goods displayed.
vi. A customer is usually free from the persuasive language used by shop attendants which sometimes force them from buying goods which they would not have bought.

Disadvantages:

i. Some untrustworthy customers may pocket small items.
ii. They require large space hence much expenses on rent.
iii. There is no physical contact between the buyers and sellers and therefore no personal relationships created.
iv. It does not allow customers to exercise their bargaining skills.
v. It is usually done on cash basis thereby not giving chance to people without cash to purchase goods.
vi. Goods are attractively displayed which may cause unnecessary spending among

people.

d) **Auctioning**

Here goods are assembled in front of potential buyers and taken by the highest bidder. Under this system, buyers are in free competition with each other. This system is commonly used during fundraising occasions for churches, schools etc and it is also common when one's goods are sold by court after failing to pay someone's debt.

e) **Tendering**

A tender is meant in response to an advertisement inviting willing supplier of particular goods and services. It is an offer to supply specific goods or services.

f) **After sale service**

This is a free service offered by the seller arising from what is purchased from him. It may be inform of advice on how to handle the goods and regular maintenance. It can as well be in form of repairs e.g. one may buy a complicated video system from a shop and may require the seller to install the system at his home and also to teach him on how to handle and operate the system.

g) **Good will**

A good will is a loyalty outgoing owner of business has already established with the old customers. When selling an already existing business like shop, the buyers will be required to pay the assets and may be pay for the good will too. This is because there is likelihood that the old customers will continue buying from the business even if it is sold to a new person.

h) **Installment selling**

This is a system of retail where the buyer is allowed to take a good from the seller after paying a small amount (part of the price of the good) and the remaining amount is paid in bits as agreed by both the seller and buyer. The items sold under this system are usually expensive or luxurious e.g. cars, refrigerators, washing machines etc. under this system; there are two systems followed namely:-

(i) Hire purchase
(ii) Deferred payment

(i) **Hire Purchase**

This is a system where the buyer takes portion of goods but ownership is not his until when the last installment is made.

If the buyer fails to settle all payments then the goods will be repossessed by the seller and the already paid installments are not refunded.

Hire purchase is common especially when people are buying durable goods e.g. vehicles, furniture, electronics etc.

(ii) **Deferred Payment**

Under this system, the buyer gets into possession of the goods and has full ownership of such a good on payment of the first installment. If the buyer fails to pay all the installments, the seller cannot repossess the good but take court action to recover unpaid installment.

Advantages of installment credit to the buyer

i. A buyer can get an expensive asset he would not have got under cost basis. This is especially with low income earners.
ii. It is a form of forced savings where the buyer inverts in assets.
iii. It uplifts the living standards of the buyer where the buyer enjoys using the asset before completing payment for it.
iv. The item bought under installment system may act as security for the buyer to apply for bank loans.
v. If the asset got is a capital good, it can be used to pay for the remaining installment. E.g. if the property bought is a taxi, it can be used on the road to make money and pay for the remaining installment.
vi. It gives the customer enough time to test the reliability of the product and in case it is defective or below standard it can easily be returned to the seller.

Advantages of installment credit to the seller

i. The seller is able to dispose of many of his goods. i.e. it increases his turnover therefore his income.
ii. It widens the market of the seller. i.e. many customers will be attracted to buy through this arrangement.
iii. In case of hire purchase should the buyer fail to pay all his installment, the seller may repossess all his goods and does not refund the buyer hence making high gains.
iv. Goods under installment credit are sold more expensively compared to those at cash basis and therefore the seller gets more profits.
v. It promotes friendship between the sellers and the buyers which may result into more deals and more income.
vi. Advertising may not be necessary under installment since the constant visits made by the customer help them know more about the new products.

Disadvantages of installment credit to the buyers

i. Consumers may be induced to purchase items they cannot afford.
ii. Commodities tend to be very expensive than when bought on cash basis.
iii. Buyer is over burdened by regular payment.
iv. It reduces the living conditions of the buyer as he has to make periodic payment from his income thereby sacrificing enjoying the goods and services he used to enjoy before.
v. In case of damage of property, the buyer has to face all the costs even if he has not completed payments.
vi. It encourages accumulation of debts. This is because the buyer has to make ends meet even though he has to make periodic payments for the property bought.

Disadvantages to the seller

i. The seller's capital is in many cases tied up in debts.
ii. The seller may not easily sell of the repossessed property because they are already second hand.
iii. It involves a lot of book keeping which increases administrative costs for the business because of regular payments.
iv. It may spoil the business image where customers may be taken to court after failing to pay the installments in case of deferred payments.
v. It requires a lot of capital to operate which may be very difficult to raise.
vi. Losses are usually incurred since the buyer has to be reminded regularly to pay and also where the business incurs court costs.

WHOLESALE TRADE

Whole selling involves the sale of goods or services by a trader to another trader. In most cases this other trader is a retailer.

A wholesaler is a trader who sells goods in affordable quantity to another trader. Whole selling involves bulk buying of goods from various producers either locally or from other countries and breaking down this bulk into smaller quantities which are then sold to the retailer.

Functions of a wholesaler to:

a) To the Producer/Manufacturer

i. They provide a link between the producer and retailers.
ii. They store goods bought from producers and therefore producers do not need to have large warehouses.
iii. They normally pay cash to producers thereby allowing continuous production and expansion.
iv. They provide transport for goods bought from producers to their warehouses.
v. They look for market for goods bought from producers.
vi. They advertise goods bought from producers.
vii. They inform producers about people's opinions regarding the goods to enable them improve on their products.
viii. They remove a number of risks from producers which could arise from holding large stock of goods e.g. theft, fire outbreak etc.
ix. Some wholesalers brand and provide packing materials for goods bought from producers e.g. tea leaves.

b) To Retailers

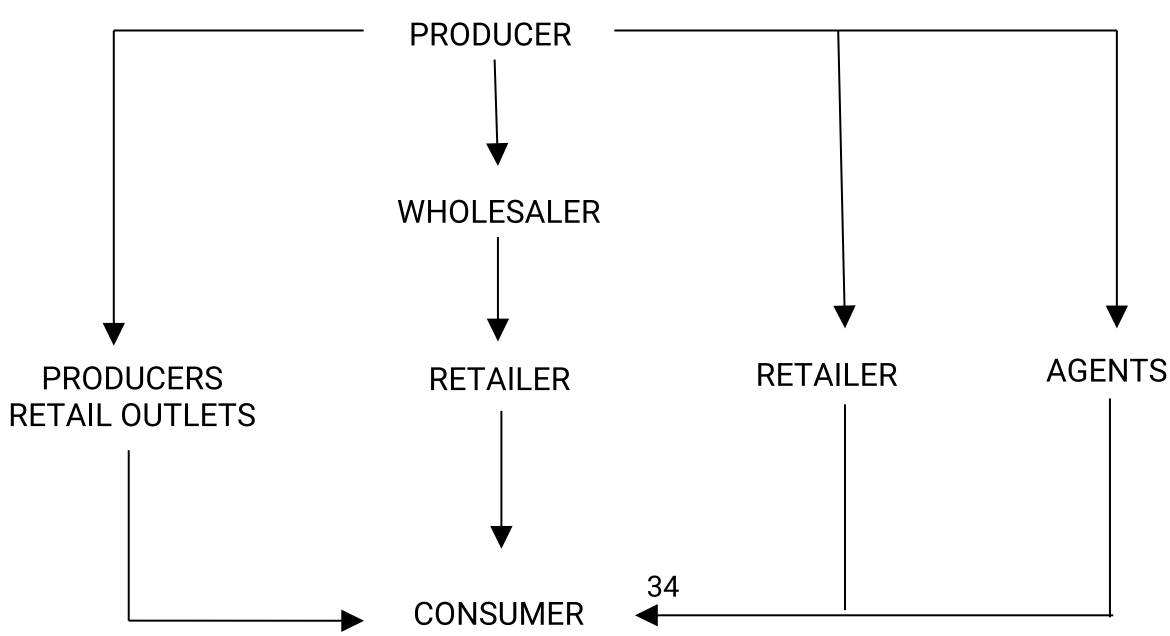
i. He supplies a variety of goods to retailers.
ii. He gives advisory services to the retailer regarding the goods bought from him.
iii. He breaks the bulk by selling the goods in affordable quantity.
iv. Some wholesalers extend credit facilities to some of their related customers.
v. They ensure steady supply of goods to their employers.

vi. Wholesalers bring goods near to the customers.
vii. Wholesalers store goods until they are needed hence saving them from constructing big and expensive warehouses.

c) To Consumer
i. They ensure steady supply of goods to retailers hence stabilizing the general price of goods.
ii. They play an important role in distribution of goods.
iii. It enables consumers to obtain goods when they want.
iv. They convey information from consumers.
v. By selling goods to retailers, customers are able to pay goods in affordable prices.

Qualities of a good quality seller
i. Should be able to know well the market of his stock. In otherwise he is expected to stock goods required by people in the area where he is.
ii. Should possess adequate capital to enable him buy a variety of goods in cash.
iii. He should audit his books regularly to reveal how well the business is doing.
iv. He should have large warehouses to enable him store many goods and for a long time.

Chain of Distribution
These are channels through which goods are distributed from the producer to the final consumer. They include:-
- Consumers who are in position to buy in large quantities may buy direct from producers.
- The most common channel is from the producer to the wholesaler then to the retailers who may buy large sales to initial consumers.
- Consumers may buy from producers through appointed agents. Small retailers may buy from large scale retailers and then to final consumers.



MIDDLEMEN

These are traders who connect producers to consumers.

Types of middlemen

Wholesalers:

A wholesaler is a trader who buys good from the producer or supplies and sales them to the retailer. The wholesaler is the most important middle man in the chain of distribution.

Brokers:

These are middlemen who act on behalf of the seller to look for market for goods. Brokers just bring the seller into contact but do not hold the goods physically. Brokers receive a commission for their services known as brokerage.

Factors:

These are middlemen who sell goods in their possession and their control on behalf of the producers. The normally sell these goods under their own names and at prices that they are best. Factors are also called commission agents e.g. spear motor limited.

Del credere Agent:

These are special types of agents who guarantee to pay the supplier for the goods the agent sells on behalf of the supplier. The supplier is assured of payment weather the goods are bought or not. Del cedere agents also guarantee payment of all the money from those who took the goods on credit. Because of these risks involves the del cedere agents receive a higher commission than other types of agents. This commission is known as del cedere commission.

Merchants:

These are home based middlemen who collect orders for the goods from abroad on behalf of the producers. Merchants save the producer from the risks and the burden of exporting the goods since the producer just sells in home based matte. The merchant has overall responsibility over the goods bought from the producer. The merchant may over adjust the price of the goods according.

Forwarding Agents:

These are middlemen who transport and deliver goods on behalf of others. Example in Uganda includes companies like inter fright, transami etc. other middlemen includes, retailers, distributors etc.

Functions of middlemen.

i. They store goods bought from producers.
ii. They transport goods bought from producers.
iii. They pay cash when getting goods from producers hence allowing continuous production.
iv. They sell goods in affordable quantities to the consumers.
v. Some middlemen also advertise goods bought from producers.
vi. They also advise consumers regarding handling of certain goods.

Disadvantages of middlemen

i. Middlemen usually charge customers because they want to make unnecessary large profits.
ii. Hiding of goods: Some middlemen may create artificial shortages. This makes consumers ay higher prices than the actual price of the goods
iii. Diluting goods: Due to the desire to make large profits, some middlemen dilute some of the goods so that they can get more quantities.
iv. Sell of defective goods: Some goods middlemen may sell expired goods to the customers. Such goods may affect the health of the customer.

ELIMINATION OF MIDDLEMEN OR WHOLESALERS FROM THE CHAIN OF DISTRIBUTION

Although middlemen play an important role in the chain of distribution of goods and services, there are circumstances when these middlemen can be eliminated from the chain of distribution. These circumstances include the following:

i. Producers have their own retail outlets. Some producers especially those with larger amount of capital, set up their own retail shops. Such producers therefore serve the consumers hence eliminate middlemen.
ii. Mail order shops: The coming of mail order shops has enabled the consumers to deal directly with the producers hence eliminating the middle men.
iii. Expensive goods: Producers of expensive goods tend to sell such goods directly to consumers.
iv. Some organizations that buy goods in large quantities may buy directly from the producer instead f buying from the middlemen. E.g. a school may buy stationery directly from the producer since it requires stationery in large quantities.
v. Consumer co-operatives: Consumers may come together and rise capital to form a consumer cooperative with the aim of availing goods to the members at low prices. Such consumer cooperatives will buy directly from the producers.
vi. Sale by contract: Where the sale is by contract, consumers often deal directly with the producers e.g. the setting up of buildings, construction of roads.
vii. In case of direct services: Provision of direct services has encouraged consumers to deal directly with the producers e.g. hair dressing.
viii. When commodities are perishable e.g. bread, milk etc. producers of such commodities may sell directly to consumers.
ix. The producer may appoint his own agent to sell the goods on behalf of the

manufacturer.

LOCATION OF INDUSTRY

This refers to the setting up of an industry in a particular area. Many manufacturers prefer to set up their industries in places where the cost of production is as low as possible.

The following are some of the factors that influence the location of industries:-

i. **Availability of raw materials:** It is important to locate an industry where raw materials are readily available. This reduces the cost of transporting the raw materials especially where they are bulky and heavy e.g. the cement factory is found in Tororo because of the availability of raw material of limestone.
ii. **Availability of labour:** Industries which use a lot of labour are usually located where cheap labour is readily available. E.g. sugarcane and tea plantations.
iii. **Availability of power supply:** Industries which use a lot of electricity should be located near the source of power or where power is easily accessible.
iv. **Availability of the market:** A producer will prefer to establish an industry near the market especially when final product is difficult to transport and costly o transport as well. This may be due to the reason that the finished products are bulky, perishable or fragile.
v. **Transport and communication:** Industries tend to locate where the costs of transport are low e.g. near main roads, railway stations and ports.
vi. **Water supply:** Industries that use a lot of water as one of their major inputs are usually located where there is abundant supply of water e.g. chemical industries, textile industries, breweries etc.
vii. **Availability of land (room for expansion):** Some producers may prefer to set up industries where there is enough land for expansion in future e.g. the outskirts of towns.
viii. **The cost of land:** Some industries may be located at the outskirts of towns and rural areas because in such areas, the cost of land is low.
ix. **Location near other firms:** Producers may locate their firms where other firms already exist in order to share some facilities with already established industries.
x. **Government policy:** Government may influence the location of industries regardless of economic reasons and the reasons for government influence include:
   - To encourage balance developments in a country.
   - To reduce rural urban migration.
xi. **Climate:** Favourable climatic conditions in terms of rainfall, temperature, sunshine etc may favour certain types of industries e.g. tourism.
xii. **Political climate:** Areas that are politically stable tend to attract industries than those areas that have insecurity.

LOCALISATION OF INDUSTRY

This refers to the tendency of industries to concentrate in particular areas. It can also be defined as a tendency of firms that produce related goods to be located in the same area.

Advantages of Localization

i. Increase in employment opportunities. More jobs will be created as a result of the coming up of more firms in the area.
ii. Development of more firms. Localization encourages the coming up of other firms in the area. These may be firms that supply raw materials due to the already established firms or the new firms may provide market for the products of the established firms.
iii. Development of infrastructure. Localization leads to development of schools, hospitals, roads, electricity supply etc.
iv. Leads to urbanization. Urban centres tend to develop in areas where industries are concentrated.
v. Expansion of firms. Firms that are concentrated in the same area and producing similar goods can easily match or combine resulting in to large scale firms.
vi. Development of the area. The government may be encouraged to develop the area where firms are concentrated by supplying such an area with electricity, roads, water etc.
vii. Development of specialized services. The concentration of firms in a particular area are usually attracts specialized services such as banking services, insurance services, security services etc.
viii. Expansion of the market. Concentration of firms in an area creates market for goods and services. This is because the area has many people who work and reside there.
ix. Increase in government revenue. The government gets a lot of revenue in form of taxes from the firms in the localized area.

Disadvantages of localization

i. Localization results to traffic congestion as a result of the large numbers of vehicles that operate in the localized area.
ii. Uneven development in the country. Those areas where firms are concentrated tend to develop much faster than other areas with no industries. This leads to unequal development.
iii. Shortage of housing facilities. Localized areas usually do not have enough housing for the population. This leads to the development of slums.
iv. Localization also leads to rural-urban migration. In most cases the people looking for jobs in localized areas are more than the available jobs resulting to unemployment.
v. Immorality: Due to high population in the localized areas, immoral activities are common in such areas e.g. prostitution, robbery etc.
vi. Pollution: The existence of many forms in the localized areas results in pollution of air and water. This affects the health of the people.
vii. High cost of living. The cost of living in the localized area tends to be high. This is

because prices of goods and services such as food, accommodation, water etc tend to be high.

viii. Localization leads to over exploitation of resources. This happens where the localized firms compete for the same raw materials that are found in the localized area.

TERMS AND MEANS OF PAYMENT

When a customer gets goods from the seller, he may take them under the following terms:-

i. Cash
ii. Installment credit
iii. Credit
iv. Cheques
v. Postal orders
vi. Money orders
vii. Telegraphic money order
viii. Bill of exchange
ix. Promissory note
x. Standing order
xi. Bank draft
xii. Postage stamps
xiii. Credit transfers

CASH

This is where a customer pays money for goods and services as soon as he gets them. Cash payment may be made under the following terms:-

a) *Cash on delivery*

The buyer pays for the goods as soon as they are delivered to him.

b) *Cash with order*

Under this system the customer is required to send money when he is pressing an order for goods and services.

This method is commonly used with mail order businesses which send goods to customers after receiving payments from them.

c) *Spot cash*

This refers to paying for goods and services immediately they are handed over to the buyer.

d) *Net cash*

This is where a cash discount is offered to customers who settle their payment within a given period agreed upon. However the customer fails to settle the payment within the specified period the discount is withdrawn by the seller.

Advantages of Cash Payment:

i. Facilitates constant supply of goods.
ii. Saves the seller from bad debtors.
iii. Gives room for expansion of the business.
iv. Minimizes losses.
v. Leads to continuity of business.

Disadvantages of Cash Payment

i. Low income earners enjoy poor quality goods.
ii. Relationship between the buyer and seller is destroyed by cash basis since there are not credits.
iii. It is hard and inconveniencing to carry especially when coins are involved.
iv. It deprives of using/enjoying a number of goods/commodities.
v. Losses are incurred especially there is limited audit work or extravagancy.

CREDIT

This is where a buyer takes goods from the supplier without paying anything but instead makes the payments at once in some future date.

Advantages of credit

i. The seller is able to sell more of his goods and he is therefore able to achieve a high turn over.
ii. Goods sold on credit are usually more expensive than those on cash. This enables the seller to earn more profits.
iii. It enables salary earners to obtain goods and pay for them at the end of the month.
iv. It promotes good understanding or relationship between the buyer and the seller.

Disadvantages of credit

i. Bad debts which may arise when the buyer fails to pay. It may lead to collapse of the business.
ii. The traders may take advantage of credit to overcharge the buyers since there is no bargaining.
iii. Credit reduces the amount of capital available to the seller.
iv. Credit requires good record keeping. This may involve alt of paper work and therefore increasing the amount of work for the seller.

CHEQUES

A cheque is a written order by a bank customer to his bank to pay a specified amount of money to a named person.

POSTAL ORDERS

It is a method of sending money in small amounts through the post office between people. The sender writes the name and address of the payee on the face of the postal order and encloses it in an envelope addressed to the payee.

Postal orders are paid to any post office within the country where the postal order is issued. The sender of the postal order has to pay a fee to the post office to the service. This fee is known as poundage. Postal orders may be crossed. This means that the money sent had to be paid on the bank account of the payee.

MONEY ORDERS

This is a method where money is sent to the payee through a specified post office. The payee receives the money only at a particular post office. The payee is expected to identify himself and name the person who sent the money order.

A money order may also be crossed. This means that the money has to be paid through the bank account of the payee. A higher service fee is paid for sending a money order than sending a postal order.

TELEGRAPHIC MONEY ORDER

It is a method where the issuing post office sends a telegraph to the payee and the receiving post office. On receiving the telegraph, the payee goes on the receiving post office, identifies himself and receives the money sent to him. The service fee for a telegraphic money order is higher than the service fee for both postal order and money order.

BILL OF EXCHANGE

This refers to an order in writing by a creditor to a debtor to pay a specified amount of money to a named person. A bill of exchange is not valid (cannot be enforced legally) unless it has been accepted by the debtor.

Parties to a Bill of Exchange

a) The drawee

This is a person to whom the bill is sent in other words is the debtor.

b) The drawer

This is a person who writes the bill in other words this is the creditor.

c) The acceptor

This may be the drawee or the debtor.

d) The payee

This may be the drawer or any other person authorized by the drawer.

Sight bill

This refers to a bill of exchange that is settled on demand.

Usance bill

This refers to a bill of exchange payable at a future date.

PROMISORY NOTE

It is a document by which the debtor unconditionally promises to pay a specified sum of money to his creditor on an agreed day.

A promissory note

One month after this date I promise to pay Mukwano Book shop Five million Uganda shillings (shs. 5,000,0000) John Mukasa 10th March

There are two parties to a promissory note:
a) The creditor - Mukwano bookshop
b) The debtor - Jon Mukasa

I OWE YOU (IOU)
This is drawn by the debtor to the creditor indicating the amount of money the debtor owes to the named creditor.

POSTAGE STAMPS
These are used to defect small payments especially for goods and services through the post office e.g. payment for the delivery of mail.

STANDING ORDER
This is an instruction to the bank to pay a specified sum of money to a named person/business at regular and specified intervals for a specified period of time or until the agreement is canceled.
e.g. A tenant may instruct his bank to pay 200,000/= to his named landlord.

BANK DRAFT
This is a cheque drawn on a bank and issued by the bank only after the bank has received money from a person requesting for a bank draft.

It is a more ready acceptable means of payment since the bank guarantees payment against it.

CREDIT CARDS
These are mainly issued by commercial banks. However, they may also be issued by other organizations as well.

A credit card gives the holder authority to buy goods in specified shops specified by the issuing bank for amounts up to an agreed maximum.

The shop will then present the bill to the issuing bank for payment. The issuing bank then bills the card holder and demands the payment.

NEGOTIABLE INSTRUMENTS

These are documents whose title can be transferred from one person to another by endorsement. This is done by signing at the back of the document as evidence of transfer of title.

Negotiable instruments include cheques, promissory notes, treasury bills among others.

Types of Endorsement

Restrictive Endorsement

This type of endorsement restricts title to a named person such that it cannot easily be transferred to another party. Therefore negotiability is not possible.

Open Endorsement

This allows the drawer to sign at the back of a document without naming the payee. This means that such a document can easily be transferred since any person may fill his name to become the payee.

DOCUMENT USED IN HOME TRADE TRANSACTIONS

A number of documents are used in home trade transactions. These documents are exchanged between buyers and sellers as they carry out their businesses. They are normally exchanged between wholesalers and retailers.

These documents include the following among others:

i. An inquiry
ii. Price list
iii. Catalogue
iv. Quotation
v. An order note
vi. Credit status inquiry letters
vii. Packing sheet/Note
viii. Advice note/Dispatch note
ix. Delivery note
x. Goods received note
xi. Invoice
xii. Goods returned
xiii. Credit note
xiv. Debit note
xv. Proforma invoice
xvi. Statement of Account
xvii. Receipt/cash sales

The following example is used to explain how the different documents are used between buyers and sellers (suppliers)

Seller/Supplier : Kikuubo General Suppliers Ltd.
P.O. Box 402 Kampala.

Buyer : Kassanda General stockists and retailers
P.O. Box 14 Mityana.

An example of a letter of inquiry

Kassanda General Stockists
P.O. Box 14 Mityana
16/3/2009

The Sales Manager
Kikuubo General Suppliers
P.O. Box 402 Kampala

Dear Sir/Madam,

I am writing to inquire about the various types of soap, cooking oil and wheat flour that you have. Please send me a price list of these goods and indicate the conditions of supply.

Thank you for your cooperation.

Yours faithfully
MISS JOCELYN
PURCHASING MANAGER

Reply to inquiry

When the supplier receives an inquiry letter, he may answer it in one of the following ways:-

a) Sending a price list
b) Sending a catalogue
c) Sending a quotation

PRICE LIST

This is a list of items sold by the seller with a respective price. A price list does not carry a lot of information apart from showing the prices of the different goods. An example of a price list

KIKUUBO GENERAL SUPPLIERS
P.O. BOX 402 KAMPALA.

19/03/2009

THE PURCHASING MANAGER
KASSSANDA GENERAL STOCKISTS
P.O. BOX 14 MITYANA

Dear Sir,

A CATALOGUE

The seller/supplier may simply send a catalogue to the buyer. A catalogue is a booklet which briefly describes each item offered for sale by the seller. In most cases it carries illustrations of the items on sale. It gives much more information than the price list. A catalogue usually gives information which includes the period of credit allowed, delivery services available, packaging and posting expenses, after sale services offered by the seller etc.

A QUOTATION

A quotation is more specific in nature. It is sent in a reply of an inquiry for which no standard price list of catalogue is available. E.g. you may want to know the cost of constructing a house of a particular design and size. There will be no standard price list for such a house. The construction company would have to study the specifications and quote for you the cost accordingly.

ORDER NOTE

After the buyer has received the necessary information from the seller, the buyer can now place an order for the goods.

An order is a request from the buyer to the seller requiring the seller to supply the specified goods. It states the type of goods required, the quantities required and the prices of individual items ordered for.

An order note is usually written in duplicate. The original is sent to the seller/supplier.

An Order Note

KASSANDA GENERAL STOCKISTS
P.O. BOX 14 MITYANA

20th March 2009

CREDIT STATUS INQUIRY

The buyer may ask the seller to allow him take the goods on credit and pay at a later date. The seller will then take the responsibility to find out information about the customer in order to avoid losses through bad debts. The seller can get information about the buyer from one or more of the following sources.

a) The bankers to the buyer

The seller may ask the buyer to give him the name of his bankers. The seller can then write a letter known as credit status inquiry for the purpose of getting information about the financial position of the buyer.

b) From other suppliers

The buyer may be asked by the seller to give the name of another supplier to the buyer from whom information about the paying habits of the buyer may be obtained.

c) Other customers

Sometimes the seller may ask one of his regular customers who may happen to know the potential buyer (Kassanda stockists) about his credit worthiness and his paying habits.

d) Trade Associations

If the buyer happens to be a member of the trade association (e.g. Kampala City traders association), the seller may approach the offices of the association for a confidential report about the potential buyer.

PACKAGE NOTE/SHEET

The order received from the buyer/retailer is passed to the warehouse section. The goods ordered for will be packed in suitable container and the contents of each container are noted on the sheet called package note/sheet.

Package sheets are usually prepared in four copies. The original copy is placed inside the container, one copy is sent to the buyer, one copy is sent to the accounts department and the last copy is retained by the warehouse for its own records.

ADVICE NOTE/DISPATCH NOTE:

When the goods ordered for by the buyer are ready, the supplier sends an advice not/dispatch note to tell the buyer that the goods had been sent. It gives the exact time the goods should be expected. This gives the buyer time to arrange for the collection and storage of the goods.

DELIVERY NOTE:

This is a document required by the seller and signed by the buyer to provide evidence that the goods have been delivered. The buyer signs the delivery note after cross checking and establish that the goods that have been delivered correspond with the information of the order note.

INVOICE:

An invoice is a document that informs the buyer of the amount that is due. An invoice is sent only if the goods are sold on credit.

An invoice serves two purposes:-

i. It serves to notify the buyer of the amount of money he has to pay for the goods bought by him.
ii. It serves as evidence of the debt due to the seller.

An invoice contains the following information:-

i. A description of the goods sold.
ii. It contains the total cost of the goods sold.
iii. It also shows any discount
iv. It shows the net amount to be paid by the buyer (i.e. this amount is the difference between the total cost of the goods and the trade discount allowed.
v. It also shows the length credit period.

An invoice is written in duplicate. A copy is kept by the seller and the original is sent to the buyer.

INVOICE

KIKUUBO GENERAL TRADERS P.O. BOX 402 KAMPALA	
TO KASSANDA GENERAL STOCKISTS P.O. BOX 14 MITYANA	24/03/09

QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
10 boxes	Mukwano Cooking oil	8,000/=	80,000/=
20 boxes	Star soap	25,000/=	500,000/=
20 cartons	Azam wheat flour	20,000/=	400,000/=
4 boxes	Imperial soap	30,000/=	120,000/=
	Less 10% trade discount Nine hundred ninety thousand shillings Terms: strictly 20 days		1,100,000/= 110,000/= 990,000/=

E & OE:
These letters stand for "Error and Omission Expected". This means that the seller reserves the right to correct an invoice if he discovers an error in it at a later date.

An invoice is often referred to as a bill. A bill is usually served when the payment is asked for a service rendered.

Professionals as doctors and lawyers issue bills to their customers.

PROCEDURE OF RECEIVING THE INVOICE
The buyer will take the following steps on receiving an invoice from the seller:-

i. He will check to establish whether the goods on the invoice are the goods that he actually ordered.
ii. He will check against the package sheet, delivery note to ensure that the goods on the invoice have actually been received.
iii. He will check the prices and the trade discount allowed to ensure that he has bit been over charged.
iv. If the invoice is found accurate, it is passed to the accounts department which prepares payment for the goods.

Discrepancies in the invoice
If the invoice is found incorrect, the buyer must take steps to ensure that he pays only the correct amount. An incorrect invoice may lead to either overcharge or undercharge.

An overcharge may result from incorrect pricing, error in trade discount calculation, errors in totaling or inclusion of wrong items.
In case of such errors, the buyer should inform the seller about the error and the seller will issue a correct note to correct the invoice.

A CREDIT NOTE
This is a document that informs the buyer that he has been credited by the seller. This means that the buyer has been relieved of the amount overcharged in the invoice. A credit note is therefore a document sent to the buyer to adjust an overcharge of the goods supplied.

DEBIT NOTE
This is a document that adjusts an undercharge in the invoice. The undercharge may be due to wrong prices spotted, errors in calculating the amount to be paid or due to

omissions of some goods.

PROFORMA INVOICE

This is a document sent by the seller to the buyer indicating terms and conditions under which goods have to be supplied. It is normally sent to a customer who wants to buy goods from the seller.

It is sent due to any of the following reasons:

i. When the seller does not want to risk credit with a new buyer. He will send to such a buyer a proforma invoice.
ii. If the quantity order is small then the supplier will send a proforma invoice for a buyer to inform him that he should pay cash.
iii. It may be sent with the goods that are sold under sale or return basis.
iv. A proforma invoice may be sent instead of a quotation.

STATEMENT OF ACCOUNT

This is a document sent by the supplier to the buyer requiring the buyer to pay for the goods taken on credit in a given period usually a month.

A statement of account consists of the following:

a) The unpaid balance of the previous months.
b) The value of the goods bought on credit
c) Some payments made during the month.

RECEIPT

As soon as the statement is sent to the buyer, the buyer is expected to pay the amount he owes to the seller.

After the payment has been made, the seller issues a receipt to the buyer. A receipt is a confirmation that the buyer has paid for the goods or services that he took from the seller.

TERMS OF SALE

When selling goods, the supplier has to indicate to the buyer the conditions (terms of purchasing goods. These terms should have the following information:-

i. Type of transport used whether it is by road, railway or air.
ii. Whether the seller is to transport the goods to the buyer's place.
iii. Whether the buyer is to pay for the transport.
iv. Whether the cost insurance is to be met by the buyer
v. Taxes involved.

Among the terms used are the following:-

i) COD

This means on delivery. The buyer is expected to pay for the goods as the y are being delivered to him.

ii) Ex factory or ex ware houses:

This means that the price quoted only shows the cost of the goods at the suppliers place. All the other expenses are not included, so they have to be meant by the buyer.

iii) LOCO

This means local price. It indicates that the price quoted is the one charged whenever the goods are found. The buyer is responsible for the packing, insurance and transport to the final destinations.

iv) E & O.E

It means errors and omission expected. It indicates that any errors or omissions that may appear on the document such as invoices, receipts etc in figure and not intended. These errors are subjects to corrections.

v) Carr pd

This means carriage paid. It indicates that the price quoted includes transport charges up to the buyer's place. Carriage paid is used in home trade.

vi) FRANCO

It is used in foreign trade. It means that the price quoted includes all expenses of delivering goods to the buyer's place in a foreign country.

vii) Carr Fwd

This means carriage forward. This indicates that the price quoted includes transport charges up to the buyer's place.

viii) C.I.F

It stands for Cost Insurance and Freight. This means that the price quoted by the seller includes the cost of the goods, cost of insurance and shipping up to the nearby port in the buyer's country.

ix) C & F

It stands for cost and freight. It means that the price quoted includes the cost of the goods and shipping charges. The price quoted does not include insurance. The buyer is expected to arrange insurance for himself.

x) F.O.B

It stands for Free On Board. This means that the price quoted includes the cost of the goods and expenses for loading on the ship. The other expenses such as paying for insurance and transport charges have to be met by the buyer.

xi) Ex-ship

This means that the supplier is responsible for the freight transport by ship and insurance up to the point of destination. The buyer will be expected to meet the expenses of taking delivery from the ship.

xii) F.O.R

This stands for Free On Rail. This means that the seller will deliver goods to the nearest rail station. The buyer would have to meet other chances to make the goods reach his premises.

xiii) F.A.S

This stands for Free Alongside Ship. It indicates that the price quoted includes all expenses of putting the goods alongside the ship ready for loading. The buyer is responsible for freight insurance and any other charges.

xiv) The bond

This means that delivery has to be made in the customs bonded warehouse of a named port. The buyer is responsible for charges of withdrawing the goods from warehouses.

xv) Duty paid

This means that the price quoted includes all the expenses involved in bringing the goods to the buyer. It also includes payment of the import taxes on the goods.

BUSINESS OWNERSHIP

A business unit is a firm set up with aim of making a profit. It may be owned by one person or may be collectively owned.

Factors that determine the size of business unit

A business unit or firm may be large or small depending on the following:-

The area that it occupies:

Firms that occupy large areas are usually large scale firms e.g. agricultural enterprises, textile firms etc.

Amount of capital employed:

Large firms usually employ large amounts of capital while small firms operate with little capital.

Number of people employed:

Large scale firms usually employ many people while the small scale firms usually employ few people.

The techniques used in production:

Large firms usually employ modern methods of production. They are characterized by mechanization, computerization and on the other hand small firms do not use modern methods.

Amount of goods produced:

Large scale firms produce large amounts of goods while small scale firms produce small amount of goods.

The number of departments in firm:

Large scale firms have several specialized departments while on the other hand small scale firms usually have very few departments.

Size of market:
Large scale firms usually have large market for their goods while on the other hand small scale firms have small market.

ECONOMIES OF SCALE
This refers to the advantages that a firm or a business unit enjoys as a result of operating on large scale. These include the following:-

- Large scale firms can easily employ specialists which result into increased production.
- Large scale firms can easily borrow money from financial institutions.
- Large scale firms operate at low average costs since their costs are spread over large amounts of goods that they produce and sell.
- Large scale firms can easily under take specialization which increases the amount of goods produced.
- Large scale firms usually get their raw materials at lower prices because they always get the raw materials in large quantities.
- Large scale firms can undertake extensive advertising which enables them to expand their market.
- Large scale firms can easily expand in size since they are able to make profits than small scale firms.
- Large scale firms can easily use their own by-products to produce other secondary products.
- Large scale firms are able to use modern methods of production and equipment. This enables them to produce goods of quality.

DISECONOMIES OF SCALE
These are disadvantages of large scale production:
- Large scale firms have management problems since they employ many people.
- Large scale firms are not flexible i.e. they cannot easily change from one line of production to another.
- Large scale firms will incur heavy losses in case of disasters e.g. fire, wars etc.
- Wastage of resources e.g. raw materials tend to be high among large scale firms.
- Large scale firms employ large numbers of people. This may result in labour disputes e.g. demands for higher wages, strikes among workers etc.
- Large scale firms usually use modern machinery. Such machinery is expensive to install and maintain.

BUSINESS UNITS AND THEIR ORGANISATION
These include:-
i. Sole trader
ii. Partnerships
iii. Joint stock companies
iv. Cooperatives
v. Marketing boards

vi. Parastatal bodies

SOLE TRADE OR SOLE PROPRIETORSHIP

Sole trade is a business owned by only one person. A sole trader or sole proprietor is a trader who owns a business done.

A sole trader contributes capital to the business alone.

He also takes all the profits alone.

He also bears the losses alone.

He remains the sole owner of the business and has total authority over the business through he may have some people to help him run the business.

ADVANTAGES OF SOLE TRADE

i. It requires little capital to set up.
ii. The business is very easy to set up since it requires little capacity and few documents. In most cases only a trading license is the document required.
iii. A sole trader takes all the profits of the business since he owns the business alone.
iv. A sole trader enjoys secrecy in all matter to do with the business since he does not have to share information concerning the business with other people.
v. The business of the sole trade is flexible. A sole trader can easily make important decision and even make any necessary changes in his business in the shortest end.
vi. The sole trader is able to establish personal contacts with his customer. He is therefore able to learn the demand of his customers which help him to maintain them.
vii. The sole trader has personal interest in the business therefore it is in his interest to maintain the business. This means that the business is unlikely to fail.
viii. A sole trade is encouraged to work hard since he takes all the profits alone and therefore has personal interest in the business.
ix. He usually works for long hours.
x. A sole trader gives advice to his customers regarding the goods he deals in. This is because he is in close contact with his customers.
xi. A sole trader pays less taxes. This is because of the small size of the business.
xii. A sole trader enjoys a lot of independent. He works at his own pace because he is a master of himself. He does not work under any body’s instructions or control.
xiii. A sole trader creates employment for the family members and other people.

DISADVANTAGES OF SOLE TRADE

i. There is limited room for expansion. This is because of the little capital that the sole trade usually has.
ii. The sole trader may not provide a variety of goods for his customers since he has limited capital.

iii. The life of the business of a sole trader depends on the life of the sole trader himself. Once the sole trader dies, the business also dies.
iv. The sole trader does not usually maintain a proper accounting system for his business. This is because he is not in position to employ trained people. As a result it is difficult for him to know the financial position of the business.
v. A sole trader works for long hours because he is alone. He therefore overworks himself.
vi. A sole trade has unlimited liability. This means that his personal property can be taken if he fails to pay the debts of the business.
vii. The sole trader suffers losses of his business alone. He cannot share the losses with any other person.
viii. There is lack of specialization because the sole trader does everything since it is a one man's business.
ix. Wrong decisions may be taken since the sole trader takes his decisions alone without consulting anybody else.
x. The sole trader cannot afford to use modern technology in his business.

Questions:
1. Define
    (a) Sole trader
    (b) Sole trade
2. What are the advantages and disadvantages of sole trade?

PARTNERSHIPS

A partnership is a business established by two or more people. It may be defined as the relationship that exist between two or more people coming together to do business with the aim of making profits.

The people who form partnership businesses are called partners.

In case of a partnership dealing in commercial activities, the minimum number of partners is 2 and the maximum is 20.
(However if the firm is to provide a professional service where all members are professionals e.g. lawyers the 2 and maximum 50).

TYPES OF PATNERSHIPS

(i) **Temporary partnerships**
This is a partnership formed for a specified period. At the expiry of this period the partnership is dissolved.

(ii) **Permanent partnership**
This is a partnership whose time of operation is not known. The time for dissolution is therefore unknown.

(iii) **Limited partnership**

This is where some partners have limited liability up to the amount they contributed as capital.

(iv) **Ordinary partnership**
This is a type of partnership where the liability of the partners is unlimited. The partners are fully responsible for all the debts to the extent of their personal property.

TYPES OF PARTNERS
Partners may be classified in the various ways as follows:-

a) According to the role they play
Under this category, there are dormant and active partners.

b) According to their liability to the partnership
Under this category, there are general and limited partners.

c) According to the age of the partners
They may be major or minor partners

d) According to the capital contributed by the partners
They may be real or quasi partners.

ACTIVE PARTNER
This is a partner who contributes capital, shares profits and losses of the partnership. In addition this type of partner takes part in the day to day running of the business.

DORMANT/SLEEPING/SILENT PARTNER
This is a type of partner who contributes capital, shares profits and losses but does not take part in the day to day running of the business.

GENERAL PARTNER
This is a type of partner who contributes capital, shares profits and losses but has unlimited liability. A general partner may be called upon to meet the debts of the partnership from his personal resources.

LIMITED PARTNER
This is a type of partner who provides capital, shares profits and losses but has limited liability. This means that in case a business fails to meet its debts, a limited partner is not required to contribute anything more than the amount he contributed as capital. The personal property of a limited partner cannot be taken to meet the debts of the business.

MAJOR PARTNER
This is the type of partner whose age is 18years and above. This type of partner contributes capital and also shares profits and losses of the business. He is allowed to participate in the running of the business.

MINOR PARTNER

This is the type of partner who contributes capital, shares profits and losses and may be responsible for the debts of the business.

QUASI PARTNER

This is a type of partner who does not contribute any capital and does not take part in the running of the business. He only allows the firm to use his name as a partner. He is not liable for the debts of the firm except when a creditor acts on the assumption that he is a real partner.

FORMATION OF PARTNERSHIPS

A partnership comes into existence by an agreement in writing known as partnership deed or articles of the partnership as laid down in the partnership act.

Partnership deed

This is an agreement in writing made by partners outlining the basis for the partnership formed. It states the terms and conditions under which the partnership business will be run.

Contents of a partnership deed

A partnership deed states the following:

i. Name of the firm and its location
ii. Names of partners, their addresses and occupation.
iii. Types of each partners e.g. active partner, major partner etc.
iv. The capital to be contributed by each partner.
v. The profit and loss sharing ratio.
vi. Rights of each partner e.g. interest on their capital.
vii. Responsibilities allocated to each partner.
viii. The steps to be taken in case of dissolutions of the partnership.
ix. Time the partnership will last if it is a temporary partnership.
x. Method of calculating good will. Good will is the force of attraction created by an individual that brings in customers.
xi. How the books of accounts will be prepared and kept.
xii. The aims and objectives of forming the partnership.

In case the partners have not prepared the partnership deed, the provisions of the partnership act 1934 chapter 29 will apply. These are as follows:-

i. Every partner can participate in the running of the business.
ii. Decision making will follow the majority votes of the partners.
iii. Any changes to be made should be in consultation with the rest of the partners.
iv. No interest is to be allowed on capital.
v. No salary to any active partner.
vi. 5% interest will be paid to any loan advanced to the business.
vii. Profits will be shared equally.
viii. All partners have a right to inspect the books of accounts.

RIGHTS & DUTIES OF PARTNERS

i. In case of expelling a partner, the partnership must be dissolved.
ii. On admission of a new partner, all partners must be informed.
iii. If there is any private business of a partner that competes with the partnership, the owner must surrender all the profits realized.
iv. Every partner must display utmost good faith in case he/she has access to fans.
v. The business must indemnify (compensate) a partner for the liabilities incurred by him in the conduct of the business.
vi. All partners are liable for the debts of the business.
vii. All partners have a right to act on behalf of the business. E.g. signing of documents.
viii. They have a right to inspect books of accounts.
ix. They have a right to punish a partner who carries out his/her duties carelessly.

DISSOLUTION OF A PARTNERSHIP

This is the expiry or bringing the existence of a partnership to an end. A partnership may be dissolved under the following circumstances:-

i. Expiry of the term of operation in the case of temporary partnership.
ii. If the objectives of the partnership have been achieved.
iii. If one of the partners becomes insane or mad.
iv. When a partner dies.
v. If a partner gives sound reasons why the partnership should be dissolved.
vi. In case a partner is bankrupt.
vii. The court may dissolve the partnership on request by a creditor or when a partnership incurs losses only.
viii. If the activity being carried out is unlawful.

ADVANTAGES OF PARTNERSHIP

i. More capital is raised through contributions by members than in the case of a sole trader.
ii. There is division of work among the partners hence sharing of work.
iii. Experience is shared among partners because of contribution of talents.
iv. Since there are no legal requirements in its formation, it is easy to start.
v. There is free discussion and consultation among partners which easily brings out proper solutions to various problems.
vi. More capital can be raised to expand the business by admitting more partners.
vii. The absence of a partner does not affect the running of the business.
viii. Partners may get bonuses in addition to the profits. This acts an incentive.
ix. A partner is a full agent of the firm. He has full authority in the daily running of the firm e.g. he can order for goods and accept payment on behalf of the firm.

DISADVANTAGES OF PARTNERSHIP

i. The business by the dissolved due to the death or bankruptcy of any member.
ii. All partners may suffer a loss of penalty resulting from the mistake of one of the members.

iii. Partners may disagree on certain matters of the business. This may hinder the growth of the development of the business.
iv. Profits have to be shared among several people who make up the partnership. This reduces the amount that each member gets as a profit.
v. A hard working partner may be discouraged because the profits that result from his hard work are shared by all members.
vi. The making of decisions is slow and may often be delayed because of the need to consult other members.
vii. Under ordinary partnership the liability of the members is unlimited. This means that the personal property of the members may be taken to pay up the debts of the business.
viii. The death of a partner seriously affects the business as a whole.

Revision questions:
1. (a) What is a partnership deed?
   (b) List down the contents of a partnership deed.
2. Give reasons for the dissolution of a partnership.
3. What are the advantages and disadvantages of partnerships?

JOINT STOCK COMPANIES

A joint stock company is an association of persons formed to run certain business activities.

According to the law company is defined as a legal person that owns properties, enters into contracts, creates liabilities, may sue others, may be sued by others and carries out certain specific function for which it was formed.

A joint stock company therefore exists as an independent entity separate from the members who constitute it.

TYPES OF JOINT STOCK COMPANIES

1. Public Limited Companies

This is a type of company that has a minimum of seven members and has no fixed number.

Features of public limited companies
i. They have a minimum of seven members with no maximum number.
ii. They have a separate legal entity from the members who constitute them. The members are known as share holders.
iii. The liability of the share holders is limited to the capital that they have contributed.
iv. The capital of the company is raised by selling the shares to the public. This

capital is divided into units of the same value and each unit is known as a share.

v. The owners of the company are called share holders as they hold its shares.
vi. The share holders have no direct contact with the employees or customers of the company. People called directors are elected by shareholders among themselves conduct the affairs of the company.
vii. The shares are freely transferable.
viii. The company is not affected if a share holder becomes insane or bankrupt or dies.
ix. Companies are formed with the aim of making profits.
x. Shares of the company are opened for the public to buy especially through stock exchange.
xi. Companies are expected to publish their annual accounts.

2. Private Limited Companies

i. Private limited companies have the following characteristics:-
ii. A private limited company may have two or fifty (2 - 50) members (share holders).
iii. The shares of the private limited companies are not freely transferrable.
iv. It can start business as soon as it receives the certificate of incorporation. It does not have to wait for a certificate of trading.
v. It is not required to publish its account as public companies do.
vi. The size of the business runs by private is often smaller.
vii. Members' liability is limited to their capital contributed.
viii. It has a separate legal entity separate from the members who form it.
ix. Members of the public may not be invited to buy shares from the company.
x. Promoters of a private company must prepare memorandum and article of association.

FORMATION OF A COMPANY

Before a company begins business operation, it must register first. It is the promoters or founder members of the company that furnish the registrar of companies with the following documents:-

i. Memorandum of association
ii. Articles of association
iii. A list of directors
iv. A statement signed by directors stating that they have agreed to act as such.
v. A declaration that the necessary requirements for registration have been fully comprised with. This declaration may be signed by secretary or by one of the directors or promoters of the company .If the registrar of the companies finds these documents in order, he may ask the director to pay registration fee. On receiving the fee he issues a certificate of incorporation. This document gives legal existence of the company.

MEMORANDUM OF ASSOCIATION

This is the most important document in the formation of the company. It lays down and defines the power and limitation of the company. It governs the company's relationship with the outsiders or the general public.

Contents of Memorandum of Association

A memorandum of association contains 6 basic aspects or clauses:-

a) **Name Clause:**
This clause states the name of the company .The last word of the name of the clause should be limited to serve as a reminder to the people dealing in the company that the reliability of its members is limited. A company can take on any name as long as it is identical to the name of an existing company.

b) **Objective Clause:**
This clause shows the aims and objectives for which the company is being formed. The company cannot carryout activities beyond the objectives or scope stated in the memorandum of association.

c) **Situation Clause:**
This shows the registered address or location of the company to enable the public know where to find it in case of contact. Every company must have registered office to which notices can be sent.

d) **Capital Clause:**
In this clause, the share capital is stated that the company wishes to have. The following information is given:-

i. The total amount of share capital.
ii. The units (shares) into which the share capital is divided
iii. The value of each share.
iv. The type of share e.g. ordinary, preference share etc

e) **Liability Clause:**
This clause states that the liability of the members shall be limited to their capital contributions.

f) **The Declaration Clause:**
This is the clause of the memorandum of association and states the desire of the promoters to form themselves into a company. This declaration must be signed by a minimum of 7 people who must agree to take at least one share each. The clause also states the names and address of the promoters and the number of shares each has agreed to take.

Questions:

1. What is a memorandum of association?
2. Explain the contents of the memorandum of association.

ARTICLES OF ASSOCIATION
This is a document that lays down the rules and regulations that govern the internal organization of the company. In other words it shows the internal rules of the company. It includes the following:-

a) The rights and powers of each type of share holder.
b) The powers of the directors of the company.

c) The method of calling and conducting general meetings.
d) The rules governing election of directors and auditors.
e) Ways of raising finances for expansion.
f) How records of the company shall be kept.
g) Whether the shares can be transferrable and how they may be transferred.
h) The salaries to be paid to the management.

Note:
The most important difference between the Memorandum of Association and Articles of Association is that while the Memorandum of Association defines the company's relationship with outsiders, the Articles of Association defines the rules and regulations that govern the internal organization of the company.

DIRECTORS LIST:
This shows the names of the directors and their written promises to take up shares in a company.

CERTIFICATE OF INCORPORATION:
When all requirements have been satisfactorily completed, the registrar issues a certificate of incorporation which allows a company to legally exist and offer its services to the public.

In case of a private company, it can start operating as soon as it receives a certificate of incorporation. But a public limited company; it has to wait for a certificate of trading for it to start operating.

PROSPECTUS:
This is drawn up by directors inviting the public to subscribe for the shares of the company. It advertises the shares of the company to members of the public. A prospectus gives much detailed information about the company describing the shares, the promoters and directors of the company, the performance of the company.

SHARES:
A share is a unit of capital of a joint stock company.

Therefore the capital of the company is raised by selling shares to members of the public and the capital of a company is referred to as a share capital.

Types of shares
There are basically two types of shares i.e.
a) Ordinary shares
b) Preference shares

Ordinary shares do not carry a fixed rate of return on capital while preference shares do carry a fixed rate of return. Profits distributed to share holders is called dividend. Preference share holders have a right on dividends but the dividend payable to them is restricted to a certain percentage. Therefore ordinary shareholders get the reduce and in years of good business, ordinary shareholders may get for more than preference share holders.

Usually only ordinary shareholders have a right to vote on important matters concerning the company e.g. election of directors.

Question
1. What are the differences between ordinary shares and preference shares?

Types of preference shares
Preference shares may be of different types:-
a) Accumulative preference shares
These shares are entitled to a fix rate of dividend till they are paid. This means that incase a company doesn't declare any dividend for a given year, holders of accumulative shares will get two years dividends in the following year. It means therefore that there dividends keep accumulating until when profits are declared and they are paid.

b) Non accumulative shares
These are entitled to a fix rate of dividend but only for the years which a dividend is declared.

c) Redeemable preference shares
These shares can be brought back by the company after a stated period of time.

d) Irredeemable preference shares
These are shares that can't be brought back by the company.

DEBENTURES
If a company finds its authorized share capital inadequate for its short term financial, it can raise money by selling debentures.
A debenture is a document that evidences that a company has borrowed a specific amount of money from the person named on its face and undertakes to pay a fixed rate of interest for the loan.

Types of debentures
Debentures may be classified in two ways:-

a) They may be classified according to the security pledged against them i.e. they may be naked or mortgaged debentures.

b) They may be classified according to redemption. Here debentures may be redeemable or irredeemable.

(i) Naked debentures
These are not secured i.e. property is pledged against them. If the company goes bankrupt, the holders of naked debentures rank among the ordinary creditors of the company.

(ii) Mortgaged debentures

These are secured i.e. some property is pledged against them such that in the event of a company's liquidation, the money received from selling the pledged property will be used to pay off the holders of the mortgaged debentures.

(iii) Redeemable debentures

These are brought back by the company i.e. the amount borrowed against them is refunded by the company after the specified minimum period.

(iv) Irredeemable debentures

They are never refunded. The amount borrowed against them remains outstanding till the company is liquidated. In other words, holders of irredeemable debentures remain creditors to the company until when the company is liquidated.

Difference between Shares and Debentures

i. A share is a unit of capital whereas a debenture is a unit of loan. Therefore a share holder is one of the holders of the company but a debenture holder is only a creditor.
ii. Shares are paid in dividends while debentures are paid in interest.
iii. Shares are usually irredeemable while debentures are usually redeemable.
iv. Most share holders have a right to vote on the affairs of the company unlike debenture holders.
v. When a company is liquidated, debenture holders are paid the face value of their debentures plus an outstanding interest. But shareholders may receive much more than the face of their holders.

Advantages of Private Limited Companies

i. Existence of personal contact between owners, employees and customers of the business.
ii. Members enjoy limited liability.
iii. Decision making and implementation is quicker since it is not subject to bureaucratic policies as in public limited company.
iv. It has continuity of existence i.e. not affected by death or bankruptcy of a member because it is a legal entity.
v. Its property is separate from that of its share holders.
vi. It is capable of raising more capital than a sole trader or partnership.

Disadvantages

i. Raising capital may be difficult because private limited company cannot appeal the secrets to the public.
ii. Shares are not easily transferrable.
iii. In case the share holder wants to leave a business, he has to seek permission from the directors to allow him to do so.
iv. Risks are not spread over to many members.
v. Employees of the company are not allowed to purchase shares of the company. This discourages hard work among the employees.
vi. The directors may have their own interests which may conflict the interests of the company.

Advantages of Public Limited Companies

i. Limited liability: In case of collapse of the company, the responsibility of the share holders to the debts of the company is limited to the amount contributed as capital. They cannot lose their person property.
ii. A public limited company has continuity of existence. It cannot be affected by the death, bankruptcy or insanity of a share holder.
iii. It can raise more capital through the sale of shares and debentures to the public unlike private limited companies.
iv. Greater specialization of functions is possible because there are many people with experience in difficult fields i.e. it is possible to specialize.
v. Shares are transferrable and this an incentive to investors who are assured of converting their shares into cash at any time they need it.
vi. It can enjoy economies of scale. This results from the lower costs of production and higher profit.
vii. The legal regulation safe guard the interest of share holders as people who deal with the company.
viii. Workers can be allowed to buy shares of the company which gives them an incentive to work hard.

Disadvantages of Public Limited Companies

i. There is no direct control by the owners or share holders of the company i.e. management and ownership are separated.
ii. The formation process of the company is very long and expensive since it requires many documents and legal formalities.
iii. It must publicize its books of account which may make it difficult for the company in performing to obtain credits from financial institutions.
iv. Decision making and implementation for important matters is very difficult because of bureaucracy.
v. It lacks flexibility i.e. unlike the sole trader, public limited companies can only engage in those activities which were stated in the memorandum of association.
vi. It is at a risk of suffering diseconomies of scale e.g. inefficient raw materials, marketing diseconomies etc. in case the books of accounts show more losses than profits.
vii. The directors may have their own interest which may conflict with the interest of the company.
viii. There is no secrecy or confidentiality as regards business since many people owned it.
ix. The company is owned by very many people and profits are shared by all share holders.

SHARE CAPITAL OF A COMPANY

The capital of a company is called share capital for the reason it is raised by selling shares. The share capital

Forms of Share Capital

1. Nominal/Authorized or registered share capital

This is a maximum amount a company may raise by selling shares. It is always stated in the memorandum of association at the time of formation of the company. E.g. a

company may wish to sell 150,000 shares at 10/= each. Its nominal share capital will be 150,000 x 10
= 1,500,000/=

2. **Issued Share Capital**
This is a total face value of the shares that have been issued e.g. in the above case the company may decide to issue out only 100,000 shares out of its 150,000 shares. Therefore the issued share capital will be
100,000 x 10
= 1,000,000/=

3. **Called up Share Capital**
This is the amount that shareholders have been asked to pay e.g. in the above company where 100,000 shares were issued out, the company may ask share holders to pay only 7/= for each share out of 10/=. So the called up share capital will be
100,000 x 7/=
= 700,000/=

Note:
The remaining balance of 300,000/= will be the un called up capital.

4. **Paid up share capital**
This is the amount that has actually been received from the share holders i.e. if in the case a share holder has failed to call at 2/= per share, the paid up capital of the company will be 698,000/= as calculated below.
Called up capital = 700,000/=
Less capital in arrears = 10,000 x 2 = 20,000
700,000 – 20,000 = 698,000/=

Called up capital	=	700,000/=	
Less capital in arrears	=	100,000 x 2/=	= 200,000 shs
Therefore paid up	=	700,000 – 200,000	
	=	500,000/=	

Unpaid up capital or capital in arrears = 200,000/=

LIQUIDATION OF A COMPANY
This is the winding up of a company. In other words it comes to an end.

Winding up of a company may be:-
(i) **Compulsory:**
This is done by law for various reasons. It may be because it does not operate according to standing orders or if its unable to meet its obligations. Once a company is declared bankrupt, it may be winded up.

(ii) **Voluntary:**
This is done by the wishes of the members. It may be done for political, economic or social reasons. Temporary companies may wind up if they complete their tasks.

LOAN CAPITAL
This is money obtained by a company by borrowing from the bank or by issuing debentures.

MARKETING BOARDS

These are trading organizations usually set up by the government to buy agricultural products from farmers and sell these products either within the country or on international market.

Classification of Marketing Boards

Marketing Boards are classified according to the type of goods they handle and the areas they serve. They are classified as follows:-

1. **Commodity Marketing Boards**

These are marketing boards that handle particular agricultural products. They are named according to the products that they handle e.g. the Coffee Marketing Board, Link Marketing Board etc.

2. **Produce Marketing Boards**

These are marketing boards that handle several agricultural products. The Produce Marketing Board in Uganda used to handle products such as maize, beans, ground nuts etc.

3. **Export Marketing Boards**

These marketing boards sell various agricultural products to foreign markets (they export products) e.g. the Coffee Marketing Board was responsible for selling Uganda's coffee on international market.

4. **Advisory Boards**

These are boards that carry out research and provide advise to farmers who produce various agricultural products.

Marketing boards which are set up by the government are known as statutory marketing boards. Such boards are managed by a board chairman who is appointed by the government.

5. **Voluntary Marketing Boards**

These are normally set up and controlled by the producers themselves.

Functions of Marketing Boards

(i) **Buying produce:** Marketing boards buy produce from farmers in various parts of the country and regulate prices favourable to both the farmer and the board.
(ii) **Selling produce:** Marketing boards are responsible for selling the produce from farmers. The board may sell the produce locally or internationally.
(iii) **Collection of produce:** Marketing boards collect produce from the farmers
(iv) **Storage of produce:** Marketing boards provide storage facilities for the produce

bought from the farmers. Some seasonal produce may be stored to the next period of no production. This ensures constant supply.

(v) Research: Marketing boards carry out research in agriculture. They advise and help farmers to improve on the quality of produce.

(vi) Assistance to farmers: Marketing boards assist farmers in various ways which include:-
- Provision of fertilizers, pesticides, farm tools etc at reduced prices.
- Provision of packing materials to farmers such as sucks polythene materials etc.
- Provision of loans to farmers through co-operative societies.

(viii) Stabilizing prices: Marketing boards stabilize prices for agricultural produce using a process known as buffer stocks. They buy up all the excess produce which may store and sell later when there are shortages.

(ix) Control of production: Marketing boards may take measures to avoid over production of certain crops. They may impose quotas to various produce or co operative societies such that any crop produced in excess of the quota is rejected. (a quota is the maximum quantity required to be supplied in the market.)

PROBLEMS OF MARKETING BOARDS.

(i) Transport:

Bad roads and bad weather create transport problems to marketing boards. These usually lead to break down of vehicles.

(ii) Poor quality produce:

Some farmers sell poor quality produce to the marketing boards. This may be inform of half dried produce e.g. in coffee and beans.

(iii) Political influence/intervention:

The management of marketing boards is usually influenced politically. Unskilled administrators are usually appointed to manage marketing boards. This results in mismanagement.

(iv) Over production:

Sometimes farmers produce output beyond what the board may handle. The major reason for over production is usually favourable weather condition.

(v) Competition from other business men:

Business men have ready cash to pay for the produce from the farmers. This encourages farmers to sell their produce to the business men instead of the marketing board.

(vi) Price fixing:

Marketing board often face the problem of fixing prices for the produce. They may fix the prices that may be below or above the price at which they eventually sell the produce.

(vii) Disasters:

Natural disasters e.g. earth quakes, drought, frost, floods e.t.c. affect the quantity and quality of agricultural produce that the board may obtain from the farmers.

(viii) **Corruption:**
Officials who manage marketing boards often embezzle or steal funds making the board to suffer losses.

(ix) **Lack of support from the government:**
Some marketing boards do not get support from the government as a result; they fail to perform most of their functions due to limited funds and lack of support.

(x) **Lack of proper storage facilities:**
Some marketing boards do not have enough storage facilities to store all the produce from the farmers especially when there is over production.

(xi) **Political instability and insecurity:**
This affects the level of production and makes it difficult for the marketing boards to collect the produce from some areas.

(xii) **Government policy of liberalization:**
In Uganda, the government has liberalized trade activities whereby there are no restrictions in terms of carrying out all types of economic activities. As a result, marketing boards have been out competed by private companies that deal in produce as well.

CO-OPERATIVES

A co-operative society is a body of people who have agreed to come together in order to attain a common objective collectively. There are different forms of co-operatives namely:-

i. Consumer co-operative societies
ii. Producer co-operative societies
iii. Savings and credit societies etc

PRINCIPLES OF CO-OPERATIVES

For any organization to be a co-operative, it must operate basing on the following principles:-

1. **Open and Voluntary membership:**

Membership to a co-operative society must be open to all who can fulfill the regulations governing a society. Membership should not be limited by tribal, political, religious, social and racial differences.

2. **Democratic administration**

Each member of the co-operative society is free to hold any office as long as other members feel that he/she is capable of carrying out the responsibilities effectively. This is done with reference to the social position, background, political or religious background. Members who hold offices or positions of responsibility in a co-operative society have to be elected democratically. This is carried out on the basis of one man one vote.

3. **Capital contribution**
Members of a co-operative society must contribute a specified amount of money as subscription. This is the money which makes up the capital of the society. This money is used to run the society in order to achieve its objectives.

Members who may wish to withdraw from the society are entitled to a certain percentage of what they contributed.

4. **Payment of Dividends**
The profits that may be made by the society must be shared amongst all members. This is done according to how much this member has contributed to the making of profits. e.g. if it a producer co-operative society, the sharing of profits depends on the sales that a neighbour has done to the society. If it is a consumer co-operative society, the sharing of profits depends on purchases a member has made from the society.

5. **Payment of interest**
Members get interest from the society according to the capital contributed by each member. The interest is fixed at a given rate which should be known by all members.

6. **Promotion of Education**
Every co-operative society has got the responsibility of educating its members so that each fully understands the aims of the society and how the society operates. This is done in order to promote a sense of loyalty to the society.

7. **Co-operation with other co-operatives at different levels**
A co-operative society is expected to co-operate with other co-operatives at different levels. This may be at village level, regional level, district level, national level or international level.

8. **Cash payments**
All sales and purchases within the co-operative society should be made at the prevailing market prices and on a cash basis.

TYPES OR FORMS OF CO-OPERATIVES

i. Consumer cooperatives
ii. Producer
iii. Savings and credit societies
iv. Transport cooperation
v. Banking
vi. Insurance

Consumer Co-operative Societies
These comprise of consumers who get together in order to protect themselves against exploitation by producers. The consumer co-operatives buy items that the members require in bulk thereby buying as wholesalers. They then sell these items to members at

reasonable prices. In some cases consumer cooperatives may sell to non-members at the market price and by so doing make profits. the profits made may be shared by the members and some of it may be retained to strengthen the financial position of the co-operative.

Functions/advantages of consumer co-operatives

i. They bring items nearer to the members.
ii. They promote social understanding amongst the members.
iii. They provide the items at reasonable prices to the members.
iv. They protect the consumers (members) against exploitation by the business community.
v. Members get some advice as regards use and handling of certain items.
vi. Members enjoy limited liability if the co-operative society is registered as a limited company.

Producer Co-operative Societies

These are made of individual producers who come together for the purpose of maximizing the benefits of the productions.

These benefits may include a bigger market, better transport etc. In East Africa, the producer cooperatives have been the most successful because most of the people in the region are involved in agriculture. The main function of the producer co-operatives is to stand united in order to protect against exploitation by consumers and middlemen. They collect, store and sometimes process produce before selling it off.

Functions/Advantages of producer co-operatives

i. They provide transport from the production centres to the markets.
ii. They look for market for the members' products.
iii. They give advice as may be required by the producers.
iv. They extend credit facilities in form of short term loans to help the producers improve on the quantity and quality of their produce.
v. They provide services essential to the producers e.g. tractor hire services at the lowest prices possible.
vi. Members receive a fair price for their produce.
vii. They also provide tools necessary for production at subsidized prices.

Saving and Credit Societies (Thrift and Loan Co-operative Societies)

These are made up of low income earners who come together in order to be able to carry out activities or undertake investments that require big sums of money. Individuals pay subscription and membership fee. The collective amount saved will then constitute a pool from which members of the society can borrow and bring back the money with interest.

Savings and credit societies are important because they encourage low income earners to save and also provide capital to the members in form of loans for investment.

The interest earned from the loans is used by the members to run the society and to improve on the members' welfare.

Functions of Savings and Credit Societies

i. It encourages low income earners to save money.
ii. It lends money to members for investment purposes.
iii. Savings made enable members acquire expensive assets.

GENERAL PROBLEMS AFFECTIGN CO-OPERATIVE SOCIETIES

i. Lack of skilled and experienced administrators since the majority of the members in the co-operatives lack enough education.
ii. They lack inadequate finance because of low incomes of the members.
iii. They lack proper storage facilities which eventually affect the quality of the produce.
iv. There is no sufficient transport facilities i.e. no enough vehicles to transport farmers' produce, impassable roads and at times no roads at all.

GOVERNMENT INVOLVEMENT IN COMMERCE

Reasons why government gets involved in Commerce:

i. To provide essential services like schools, hospitals etc at affordable prices so as to reduce over exploitation by private individuals.
ii. In the case of large ventures that require a lot of capital which private individuals cannot easily raise. The government usually undertakes such ventures e.g. construction of hydro electric power stations.
iii. To ensure equal distribution of economic opportunities by setting up industries in different parts of the country.
iv. To ensure balanced development of all parts of the country by setting up industries in those parts of the country that are still underdeveloped.
v. To break the monopoly powers of private enterprises that usually exploit consumers in terms of high prices.
vi. The government may also get into involved in commerce in order to handle the production of sensitive and dangerous products that should not be left to private individuals e.g. guns.
vii. To provide products of high quality and of the right quantities in order to avoid exploitation from the consumers.
viii. It may be the policy of the government to nationalize the economy.

The government gets involved in commerce through the following ways:-

i. Nationalization
ii. Consumer protection
iii. Privatization

NATIONALIZATION

It is a government policy that involves the takeover of the ownership of private enterprises by the government.

CONSUMER PROTECTION

It is a government policy to protect the consumers against exploitation by the businessmen. It is done by the government to ensure the well being of the citizens.

Ways of consumer protection

i. Through the national bureau of standards. This is an institution set up by the government to ensure that the goods produced and sold to the consumers meet the proper requirements or standards in terms of quality, quantity among others.
ii. Price controls: This is where the government fixes prices of commodities in the country.
iii. Through weights and measures department: This department carries out regular inspection of weighing scales and other equipments used in trade. This is to ensure that the right quantities of goods are sold to the consumer.
iv. Through the ministry of health: The ministry of health through the public health department is supposed to ensure that the goods used especially foods and drinks do not have bad effects on consumers.
v. Through the ministry of agriculture and animal industry, veterinary department. Officials from the veterinary department are supposed to check animals before they are slaughtered for meat. The department also has power to stop the movement of animals from areas affected by animal diseases.
vi. Trade license: No trader is allowed to operate without a trade license from the government. This means that only those who qualify to sell the goods are allowed to do so.
vii. Through consumers' association: These are associations set up by the consumers themselves. These associations carry out investigations regarding the quality and prices of goods on market.

Reasons for Consumer Protection

i. Traders often overcharge consumers so that they may get a lot of profits.
ii. Sometimes consumers may not be aware of the quality and disability of the products.
iii. Use of wrong weights and measures is a common practice among sellers hence need for consumer protection.
iv. Misleading advertisements by the sellers tend to attract consumers to buy goods which may instead be useless.
v. Some traders sell goods that may be dangerous to the health of the consumers e.g. expired drugs, unhygiene, food stuffs etc.
vi. Some produces may use inferior components in the production of certain goods to make the cost of production low. However such producers end up selling such commodities at higher prices.

PRIVITISATION

This refers to the government policy of transferring ownership of public enterprises to private individuals as companies.

REASONS FOR PRIVITIZATION IN UGANDA

i. To improve the efficiency of public enterprises so that they may produce good quality goods and services.
ii. To encourage competition among firms so as to improve on the utilization of resources hence high production.
iii. Privatization is favoured by the major donors, World Bank and IMF. It has therefore been given to Uganda as a condition for aid.
iv. To reduce corruption among government officials by promoting accountability, transparency and better management.
v. To reduce government expenditure on public enterprises in form of subsidies.
vi. To widen the tax base of the country through taxation of the private enterprises.
vii. To encourage the participation of many people in production.
viii. To create more employment opportunities by allowing private individuals and companies to run the enterprises.
ix. To enable the government to concentrate for the provision of social services like health, education etc.
x. To encourage domestic production so as to avoid balance of payment problems.
xi. To encourage inflow of capital when foreign investors are involved.
xii. To encourage the transfer of modern technology from the developed countries.

DISADVANTAGES OF PRIVATIZATION

i. Planning for the economy by the government becomes difficult since most enterprises are owned by private individuals and even foreigners whose interests may not be the same as those of the government.
ii. Privatization leads to increased exploitation of the consumer through high prices and even poor quality goods and services.
iii. It also leads to unemployment in the short run. This is because the buyers of the public enterprises often reduce the number of workers employed by the enterprise.
iv. It leads to a reduction in the provision of some essential goods and services especially if such goods and services do not fetch high profits.
v. It also leads to over exploitation of natural resources leading to environmental degradation.
vi. Privatization increases income inequality among the people. The few private individuals who own the enterprises earn a lot of profits and therefore become much richer compared to the economy of the government.
vii. Privatization tends to be unpopular among the citizens. It may therefore lead to loss of support for government among the local people.
viii. Privatization may result in losses to the government. This comes about as a result of valuation and high costs of advertising.

STATE CORPORATIONS

These are organizations set up and owned by the government. The government finances and also controls those organizations. State corporations are of three types i.e.

i. Parastatal bodies
ii. Public corporations

iii. Local authorities

PARASTATAL BODIES

These are government organizations set up to undertake developmental functions. They do not aim at making profits but instead to assist the public in various ways.

Organizations such as Produce Marketing Board and Link Marketing Board were set up by the government to assist farmers for looking for market for their produce and also to help them transport their produce to those markets.

PUBLIC CORPORATOMS

These are set up by the government to provide goods and services to the public either freely or at reduced costs. The aim is to reduce the exploitation of the public by the private sector. Examples include: National Water & Sewerage Corporation, the former Uganda Railways Corporation etc.

LOCAL AUTHORITIES

These are controlled by the local government to provide certain essential services which may be unprofitable and therefore not easily provided by private individuals e.g. cleaning of the streets, road maintenance

Advantages of state corporations

i. State corporations undertake some activities that are unprofitable but essential to the people. Such activities cannot be easily undertaken by the private sector. E.g. cleaning of the streets, maintenance of toads.
ii. Some activities require a lot of capital to undertake. The capital required may be so much that the private sector may not easily raise it. Such activities have to be undertaken by the government through state corporations e.g. electricity supply, water supply, the railways etc.
iii. Some activities are very risky and therefore cannot be left in the hands of private individuals e.g. the production of weapons, maintaining law and order.
iv. State corporations provide services to the public at low costs e.g. water, electricity, medical services etc.
v. Some state corporations may make profits. These profits benefit the citizens in form of financing medical services etc.
vi. State corporations also provide employment to the public.
vii. Through state corporations, the government can achieve balanced development throughout the various state enterprises in different parts of the country.
viii. State corporations eliminate duplication in the production of goods and services. This reduces wastage of resources.

Disadvantages of state corporations

i. **Political influence:** The management and administration of State Corporation is politically appointed. This tends to promote political objectives rather than business objectives.
ii. **Corruption:** There is a wide spread misuse and stealing funds in public corporations.
iii. **Inadequate funds from the government:** Some state corporations are very big to

the extent that the government may not have enough funds to operate them e.g. the railway services.

iv. **Inefficiency:** Workers in state corporations have no personal interest with these organizations and as a result there are high levels of inefficiency.

v. **Poor quality goods and services:** State corporations tend to produce poor quality goods and services since many of them are monopolies which operate without any serious competition.

vi. **State corporations overburden the tax payer:** This is because many of them do not realize profits and therefore the costs of the operations have to be met by the people in terms of increased taxes.

vii. **State corporations discourage private enterprises:** This is because they compete with the private enterprises and they tend to produce goods and services at low prices.

viii. **There is too much bureaucracy (red-tape) in the state corporation:** This result into unnecessary delays in decision making which results into delays of goods and services.

INTERNATIONAL TRADE

This is the exchange of goods and services between countries. It is also referred to as foreign trade or external trade.

International trader involves export trade and import trade.

Export trade is the selling of goods and services to another country.

Import trade is the purchase of goods and services from another country.

REASONS FOR THE EXISTENCE OF INTERNATIONAL TRADE

(*What gives rise to International trade?)*

i. **Differences in climatic conditions:** Certain crops may grow very well in certain countries but may not grow at all in other countries.

ii. **Differences in the location of national resources:** Some countries have certain resources as minerals. Other countries do not have such resources and thus creating a need to get these resources through international trade.

iii. **Differences in skills also give rise to international trade:** Countries that do not have enough skilled man power need to get such man power through international trade.

iv. **Differences in the level of technology:** Countries with poor technology need to get advanced technology from the developed countries.

v. **To dispose of surplus:** Countries that produce certain goods in surplus (excess of what is required) need to send the surplus to other countries and get other things from these countries.

vi. **Specialization:** This is where different countries concentrate on the production of particular items.

vii. **Differences in the costs of production:** This enables some countries to produce more goods than other countries because of the low costs of production.

viii. To enable countries to get what it cannot produce.

TERMS OR WORDS COMMONLY USED IN INTERNATIONAL TRADE

Bi-lateral trade:
It is the exchange of goods and services between two countries.
Multi-lateral trade:
It is the exchange of goods and services among more than two countries.

Visible trade:
It involves exchange of tangible goods. The goods may be tangible exports and tangible imports.

Invisible trade:
It involves exchange of services such as tourism, transport, insurance, banking etc.

Balance of payment:
This refers to the difference between the receipts and payments (both visible and invisible of a country). A country receives money for exports (receipts and pays of imports and pays for exports (payment). When receipts of a country are more than payments then a country is said to be having a favourable balance of payment. If the payment are more than the receipts then the country is said to be having unfavourable balance of payment. Unfavourable balance of payment is also known as deficit.

Balance of trade:
This refers to the difference between visible exports and invisible imports a country is said to be having favourable balance of trade when the visible exports are more than the visible imports. Unfavourable balance of trade arises when the imports are more than the exports.

Terms of trade:
This refers to the cost of a country's imports relative to the price of the exports. When a country spends more money as imports than what it earns from exports, it is said to have unfavourable terms of trade. However if it earns more money from the exports than what is spends on imports, it is said to have favourable terms of trade.

Exchange rate:
It is the rate at which the currency of the county is exchange for a foreign currency. It is the value of one currency in terms of another currency.

Devaluation:
It is the official (legal) reduction of the value of the country's currency on terms of foreign currency.

Customs duties:
These are taxes charged on imported goods. Customs duties are also known as tariffs or import duties.

Customs authorities:
These are responsible for the collection of the customs duties.

Customs Drawback:
This refers to the money refunded to the importer after payment of customs duty. This refund is made when the importers decide to re-export the imported goods and services in a given period of time.

ADVANTAGES OF INTERNATIONAL TRADE
i. It enables a country to get goods that it cannot produce e.g. Uganda is able to get vehicles from other countries.
ii. It enables the people in a particular country to have variety of goods. This widens the choice of consumers.
iii. It encourages specialization which leads to increased production.
iv. It provides a market for the surplus (excess) goods produced by different countries. Such goods are not wasted.
v. It increases government revenue through taxes charges on imports.
vi. It creates more employment. Jobs are created by industries producing for export, company importing and exporting goods, workers who collect taxes etc,
vii. Encourages competition among producers in various countries. This leads to production of improved quality goods.
viii. It enables the country with surplus skilled labour to export such labour while those with labour shortages are able to get such labour.
ix. It enables the poor countries to get better technology from the developed countries.
x. In case of natural calamities such as floods, drought etc, countries can easily get supply from other countries to overcome such problems.
xi. It promotes international cooperation and understanding. This is because countries depend on each other and at the same time people move from one country to another.

DISADVANTAGES OF INTERNATIONAL TRADE
i. Continuous exchange of goods may lead to exhaustion of resources e.g. minerals, fish etc.
ii. Importation of goods that are of better quality than the locally produced goods retards the growth of the local industries.
iii. Imported goods may be harmful to the citizens. Such goods may include pornographic materials, expired drugs which may affect the health and morals of the citizens.
iv. It may lead to over dependence of the country on other countries. The dependant country may therefore be subjected to undesirable conditions.
v. The final price of imported goods is usually high. This is due to high import duties and handling charges.
vi. It may discourage the development of local skills. This happens when a country depends on imported skilled man power and does not invest in the training of its own people.
vii. It may result into imported inflation. This happens if a country imports goods

from another country that is experiencing inflation.

viii. It encourages dumping. This is the selling of a commodity in a foreign country at a price lower than the price at which the commodity is sold in the home market.

ix. It may lead to balance of payment problems if the country imports more goods that it exports.

x. It may result into shortages of commodities in the importing country. Countries that depend on experiences problems such as wars, droughts etc.

xi. It is characterized by delays in the clearing of goods by customs authorities. Some goods may therefore reach their destination when they are expired.

xii. It promotes competition among countries. This may promote conflicts among countries.

xiii. It promotes international inequality. The developed countries export manufactured products whose prices are very high while the poor countries export low qualities whose prices are low. The rich countries become richer while the poor countries become poorer.

AGENTS IN INTERNATIONAL TRADE

Import brokers:

These are middlemen who connect the buyers in purchase of goods from abroad to the suppliers. They do not possess the goods but just facilitate the sale of goods. An import broker earns a commission known as brokerage.

Del-credere agent:

These are agents who possess the goods and guarantee the sale of the goods and collect any debts after sell. If the buyer fails to pay the Del-credere agent, he has to pay the debt himself. A del credere agent earns a del credere commission.

Import Merchants:

These agents buy goods from foreign countries with their own capital. They buy on their own accounts, store and sell the goods under their own names.

Import commission agent:

These are agents who import goods for others. They earn a commission.

RESTRICTIONS (BARRIERS) IN FOREIGN TRADE

This refers to the limiting of goods coming in or moving out of the country. It is known as protectionism.

REASONS FOR INTERNATIONAL TRADE RESTRICTIONS

The government may decide to restrict international trade for a number of reasons which include the following:-

i. To protect local infant industries against competition with industries of other countries.

ii. To attract investments particularly industrial investments in a country.

iii. To maintain the health standards of the citizens. Restrictions on imported goods discourage importation of harmful goods and poor quality goods that could affect the health of the citizens.

iv. To create and maintain employment in a country. Trade restrictions lead to the growth of home industries which provide employment to the people.

v. Restrictions on foreign trade enable the government to earn revenue. This revenue is got from taxes on imports.
vi. To discourage importation of dangerous goods e.g. cigarettes, guns etc.
vii. To ensure favourable balance of payments. There the country spends less on imports compared to what it earns from exports.
viii. To ensure that the country is self sufficiable by reducing dependence on imported goods.
ix. To avoid imported inflation where the country may have increased prices because it is buying the goods from another country where the prices are increasing.

MEASURES THAT ARE USED IN RESTRICTING FOREIGN TRADE.
(Ways of Restricting Foreign trade)

1. Use of Quotas
This is where the government puts restrictions on the amount of goods which can be imported into the country in a given period.

2. Total ban
The government may use its powers to completely stop the importation of certain goods that are considered harmful to certain people.

3. Use of import duties
Import duties are taxes imposed on imported goods. The government may restrict foreign trade by increasing import duties on certain goods thus making such goods expensive and therefore limits their importation.

4. Use of subsidies
These are payments made by the government to home based industries so that they are able to produce and sell goods at low prices.

5. Foreign exchange control
The government may reduce on the amount of foreign currency that is allocated or given for the importation of goods into the country. This will reduce the amount of goods imported into the country.

6. Quality control
The importing country may set strict requirements in terms of the quality of the goods that have to be imported.

7. Administrative control
The government may set length and completed procedures that have to be followed by importers. This discourages importers.

8. Licensing policies
Licenses for the importation of some commodities may be given to only a few importers.

9. **Physical barriers**

The government may set up check-up points and road blocks at the borders as a way of restricting the importation of some goods.

FACTORS THAT LIMIT INTERNATIONAL TRADE

i. The long distances between countries limit trade among the various countries.
ii. Poor transport and communication networks e.g. poor roads make trade between some countries very difficult.
iii. The language barrier: Lack of a common language among various countries limit international trade among such countries.
iv. High taxes on imports: This makes imports very expensive.
v. High competition among those countries that produce similar goods. As a result, those countries that produce low quality goods cannot easily sell these goods on the international market.
vi. The problem of getting credit from the suppliers by the importers.
vii. The use of many documents in international trade also discourages some of the people who could have taken part in the international trade.
viii. There is the risk of being cheated especially where the agents are used by the suppliers.
ix. The differences in currencies used by different countries also limit international trade.
x. There are many risks in foreign trade than home trade. These include damage of goods, loss of goods on the way, failure to pay the importers etc.

DOCUMENTS USED IN FOREIGN TRADE

1. INDENT

This is an order for goods in international trade. An indent may be close or open. A closed indent is one where the supplier is named by the buyers. An open indent is one where the importer or agent is free to name any supplier.

2. CERTIFICATE OF ORIGIN

This is a document that shows where the goods imported are coming from.

3. CONSULAR INVOICE

This is the document issued by the embassy of the imported country which embassy is located in the exporting country. Before goods, the country must be inspected by importing country representative so that the importer does not put a wrong price on the invoice to pay less tax.

4. BILL OF LADING

This is a document with a form of contract between the sender of the goods and the shipping company. It contains all the details of the goods loaded on the ship.

A dirty bill of lading refers to the bill for goods that are accepted on the ship when they are damaged.

A clear bill of lading refers to the bill of goods accepted on the ship when they are in good condition.

Functions of a bill of lading

i. It contains details of goods loaded onto the ship.
ii. It contains the name of the sender (consigner) and the name of the receiver (consignee) and the name of the shipping company.
iii. It is an official receipt for the goods by the shipping company.
iv. It shows the terms and conditions under which the shipping company is transporting the goods.
v. It is a negotiable instrument. This means that the goods can be transferred to another person by the receiver signing this bill.

5. EXPORT LICENSE

A license is issued for the export of certain goods. The main purpose of a license is to control the exports of certain goods e.g. food stuffs and military goods.

6. AIRWAY BILL

This is a contract between the importer and the airline company for goods transported by air. An airline bill is similar to a bill of lading except that the airline bill is not negotiable. This means that the goods cannot be transferred to another person by signing the airway bill.

7. SHIPPING NOTE

It is issued by the shipping company to the sender giving details of the goods and conditions under which the goods are transported. This document informs the port authorities the goods involved on the ship on their destination.

8. WEIGHT NOTE

This document shows the quantity of goods delivered at the dock. It states the number of boxes in a particular consignment in the name of the person responsible for all costs.

This is necessary because weight is one of the ways of determining the dock charges.

9. FREIGHT NOTE

This is a document that shows the cost of transporting goods from one place to another.

10. LETTER OF CREDIT

It is a document that authorizes the named bank in the exporter's country to accept the bill of exchange drawn by the exporter on the importer up to a certain limit in a given period of time indicated in the letter.

11. CALLING FORWARD NOTE

This document informs the seller (exporter) the date and time by which the goods should be at the dock ready for loading on to a particular ship.

12. LETTER OF HYPOTHICATION

This is a letter from the supplier of goods to his bank authorizing the bank to obtain and sell goods that had been sent to the importer. This arises when the bank fails to obtain payment of the bill of exchange drawn on the importer.

13. SHIPS MANIFEST

This is a document that gives full details of the contents on the ship. It shows the crew, passengers and cargo carried.

OTHER COMMON TERMS IN INTERNATIONAL TRADE

i) Customs authority

These are responsible for collecting taxes on imports (import duties). They also ensure that import regulations are followed. They also prevent smuggling of goods in and out of the country.

ii) Customs draw back

This is the money refunded to the importer after the importer has paid customs duties. This may happen if the importer re-exports goods within a certain period of time.

iii) Customs duties

These are taxes on imported goods. An importer must fill a bill of entry giving details of goods imported so that the customs officials may determine the taxes to be paid.

a) Protective duties:

These are taxes imposed to protect domestic industries and also to protect the health of the citizens.

b) Advalorem duties:

These are charged according to the value of goods imported.

c) Specific tax:

This is the tax charged according to the quantity of the commodity.

iv) Free good form:

If there is no duty to be paid on certain goods entering the country, a free goods form has to be completed.

v) Ex-ship form:

If there is duty to be paid on the goods entering a country, an ex-ship form is filled. The goods will only be released when it is indicated that the duty has been paid.

TERMS OF SALE IN INTERNATIONAL TRADE

When selling goods, the supplier/exporter should clearly show the buyer all the possible terms of buying the goods. The terms used must be clearly interpreted by the buyer. They include:-

1) Cost Insurance and Freight (CIF)

This term means that the price stated by the seller includes the costs of goods, costs of insurance and the cost of shipping the goods up to the nearest part in the buyer's country.

2) Cost and Freight (C & F)

This tem means that the price includes the costs of the goods and the shipping charges. It means that the buyer has to arrange for insurance since it is not included in the quotation.

3) Free on Board (FOB)

This means that the price stated includes cost of the goods and the expenses of loading the goods and the shipping charges. It means that the buyer has to arrange for insurance since it is not included in the quotation.

4) Free on Rail

This means that the seller will make agreements to deliver the goods to the nearest railway station for delivery to the buyer. It means that it is up to the buyer to make other agreements and meet the charges at transporting the goods to the buyer's place.

5) Free alongside Ship (FAS)

This means that on top of the cost of goods, the price stated includes:-

- The cost of putting the goods alongside the ship ready for loading. The buyer will therefore be responsible for meeting the shipping costs, insurance costs and any other charges.

6) Ex-ship

This means that the price stated include the costs of the goods, shipping costs and insurance. It means that the buyer will be responsible for meeting the costs of taking the goods from the ship up to the final destination.

7) Loaded

This means that the price stated includes all the costs to the parts of destination. However the costs of unloading is not included in the price and therefore has to be met by the buyer.

8) Free On Quay (FOQ)

A quay is a place where ships are loaded and unloaded. Free On Quay therefore means that the seller has to transport the goods up to the Quay.

9) Duty paid

This means that the price stated include the payments for customs duties for the goods.

10) In Bond

This means that the seller will deliver the goods to the customs bonded ware house at the named port. It means that the buyer has to meet the costs of getting the goods out of the warehouse.

11) LOGO

This means that the price stated is charge wherever the goods are found.

12) FRANCO

This means that the price stated involves all expenses including the delivery of the goods to the place of the buyer.

ECONOMIC INTEGRATION
(Regional Integration)

This is the coming together of several countries with the aim of enjoying common economic benefits.

It involves the removal of international trade barriers among the national states.

Examples of groups of regional co-operation include; East African Community (EAC), Economic Community of the West African States (ECOWAS), European Union etc.

Advantages

i. It widens the market for commodities from the member countries as a result of the removal of international trade barriers.
ii. It leads to the expansion of manufacturing industries in the member states as a result of the bigger market.
iii. It reduces duplication of industries among the member states. One industry may be established in a given member state to provide all the member states with a particular commodity.
iv. It leads to improved quality of the goods produced by the member countries. This results from competition among the industries in the neighbouring countries.
v. It encourages specialization and greater use of resources. This leads to increase in the amount of countries to share common services at low costs. E.g. the railways, air lines.
vi. It increases employment opportunities in the member countries. This is as a result of the expansion of industries.
vii. It may involve the use of a common currency. This makes trade much easier among the member countries.
viii. It enables member countries to carry out research jointly at low costs.
ix. It leads to close cooperation and understanding among the member countries. This prompts peace.
x. It enables consumers in the member countries to get cheap goods since there are no taxes imposed on goods imported from the member countries.

Disadvantages

i. Loss of revenue. Member countries lose revenue since they could not collect taxes on goods imported from fellow member countries.
ii. Poor quality goods. Member countries are forced to buy poor quality goods from their fellow member countries instead of importing better quality goods from elsewhere.
iii. Surpluses may result due to the limited market among the member countries.

Sometimes member countries may even be producing similar goods.

iv. It results in the loss of independence of individual member states in the making of economic decisions.
v. It may lead to uneven distribution of industries. Those member countries that are more developed and have better infrastructure usually attract more industries than the less developed member countries.
vi. It may worsen the balance of payment problem of the poor member countries. This happens when they import more goods from other member countries as compared to what they export.
vii. It may result in the loss of political independence of the individual member state if the member states form a political re-union (join together to form one country).
viii. It promotes economic dependency of the poor member countries on other member countries for goods, services, labour etc.
ix. It leads to high cost of staffing as a result of the free movement of labour among the member countries.

AIDS TO TRADE

MARKET RESEARCH

It is a process of finding out people's opinions about the goods and services of the producer. It may also be defined as the collection of statistical data from various sources that may be used to determine the future demand for a good/service.

Methods of Carrying out Market Research

1. Internal Research (Statistical data method)

This involves obtaining various figures from past records of the sales of the organization. These records are compared with the present situation to determine the future market.

2. Consumer Survey (Contact method)

This is a form of market research that is intended to find out the way consumers feel about the product. A selection of consumers is made and their recommendations of these consumers determine the market of the producer.

3. Area Retail Tests (Observation method)

This is where a place is selected to represent the whole market and given the task of testing a given commodity. The recommendations from this area becomes of vital importance in determining the market for the producer.

AIMS OF CARRYING OUT MARKET RESEARCH

i. To avoid wastage or under production of goods.
ii. To determine the type of sales promotion activities to be used.
iii. To study interest of the public in terms of size, colour and type of package.
iv. To specify areas where demand is high.

PROBLEMS FACED BY MARKET RESEARCHERS

i. Inadequate research personnel. There are not enough research personnel to carry out this work.
ii. The work is tiresome to carry out.
iii. Political instabilities in some areas make it difficult to carry out market research.
iv. Market research is expensive to carry out. Many producers may not have sufficient funds to carry out market research.
v. Illiteracy among the consumers. Many consumers are unable to fill questionnaires since they cannot read and write.
vi. Diversity of languages. This creates problems in getting information in certain areas.
vii. Poor transport facilities. This makes it difficult to reach many areas.
viii. Some individuals do not give correct information. Researchers therefore get unreliable information.
ix. Poor shortage of information. This may not give the researchers the correct figures about the demand of the consumers.

Guide Questions

1. What is market research?
2. Why do entrepreneurs carry out market research?
3. What problems do market researchers experience while carrying out their work?

COMMUNICATION

This is an aid to trade which involves conveying information from one person to another or from one organization to another.

Communication involves sharing and exchanging of ideas.

Communication comes from a Latin word commune meaning to share.

Methods used in Communication

These are also called channels of communication. They include oral or verbal communication and non-verbal or written communication.

Oral communication may be through personal contact, radio, TV, telephone etc.

Written communication takes different forms like letters, newspapers, telegrams, telex, journals etc.

Oral Communication

It is the exchange of messages from one individual to another verbally. It may be face to face. It may also involve use of drums and bells in some communities. It also involves use of telephones, televisions, radio calls etc. It may also involve conversations, meetings, conferences, interviews, training etc.

Advantages of Oral Communication

i. It saves time compared to written communication.
ii. It is cheap especially for short distances since no costs are involved at all.
iii. It avoids errors/mistakes which may result from the use of telegrams. Telegrams tend to be too brief.
iv. It creates direct contact between the two parties i.e. buyers and sellers.
v. It gives room for detail discussions about the goods, their prices, terms of payment and terms of deliverance.
vi. It can be used by illiterates i.e. those who do not know how to read and write.
vii. First hand information is given to the listener.
viii. The sender gets a feed back immediately.

Disadvantages of Oral Communication

i. It may not be taken seriously because of lack of written evidence between the two parties.
ii. It may turn out to be expensive if the message is sent to a long distance by phone system.
iii. Errors may arise from misunderstandings of speakers especially where the message is misheard or poorly pronounced.
iv. Illustrations in form of diagrams cannot be made through oral communication.
v. Information cannot be stored. This means that information can be forgotten easily.
vi. People who are deaf and dumb cannot use this communication.

Written Communication

It involves messages/information sent or received in writing. It includes letters, magazines, newspapers, fax etc.

Advantages of Written Communication

i. It provides written records for future reference.
ii. It serves as legal evidence for contracts between two parties.
iii. It makes it possible for information to be reproduced and distributed to different parties.
iv. The message can be sent or received at any time.
v. It is suitable for sending messages over long distances e.g. by telex, fax etc.
vi. Illustrations like pictures can be sent.

Disadvantages of Written Communication

i. It tends to be expensive for long distances especially fax services.
ii. There is lack of direct contact between the parties involved.
iii. There is a danger of changing the message through forgery.
iv. Some messages are too brief to provide enough information e.g. telegrams.
v. It can only be used by those who are literate.
vi. It takes a lot of time to write and sent information or messages.
vii. One can lose information through destruction by fire, water etc.
viii. The blind cannot easily use this form of information.

Importance of Communication

i. Modern communication systems enable producers to keep in touch with buyers hence widening the market for their goods.

ii. Communication saves money and time e.g. the telephone system when used for long distance communication.
iii. In case of accidents, communication helps to save lives of victims and also save goods from damage.
iv. It enables consumers to forward their complaints or opinions about a particular commodity to the producers.
v. It provides employment opportunities to business mean, mobile phone companies, post office etc provide jobs to many people.
vi. Communication is important in linking up markets. Regions of scarcity and surplus are linked up hence overcoming shortages and unnecessary surpluses.
vii. Communication provides a link between a firm (producer) and the outside world. Information about other countries can be got through communication.
viii. It enables goods and services that are available to be advertised to the public. This creates market for goods and services.
ix. Written communication provides permanent records about transactions and can be used for future reference.
x. Communication makes it possible to acquire information concerning delivery, packing, payment, distribution of goods etc.
xi. It makes the public aware of the nature of goods and services in the market which may increase the level of consumption.

SERVICES PROVIDED BY POST OFFICE

1. Postal Services

These are available to send or deliver messages. These messages can be in form of letters or parcels. Letters are sent by the following means:-

a) Ordinary Post

This is where letters are sent through post office after fixing the necessary posting stamps. Ordinary post may be:-

(i) Surface mail: These are transported by road.
(ii) Air mail: These are transported by air.

b) Registered Post Mail

This is a method of ensuring safe delivery of messages and valuable items on top of the post stamp where by an additional fee is charged and a letter is registered at the post office. A receipt is issued in return. The letter is put in a special envelope from the post office and in case it gets lost, compensation is made by the post office.

c) Expressed Mail

Under this service, extra attention is given to the letter to ensure that it is quickly delivered.

d) Speed Post

Under this service, letters are normally delivered on the same day they are posted. For this purpose, the sender has to pay more money than it is the case with other services.

Advantages of Letters

i. Letters keep information for future reference since they can be kept as records.
ii. Letters enable details to be included. Such details may include personal information, diagrams, illustrations etc.
iii. Letters are less costly than other forms of communication.
iv. Privacy is assured through letters since the information may not be accessed by any other person other than the rightful person.

Disadvantages of Letters

i. They do not provide immediate replies because it takes time for the message to reach its final destination.
ii. It is a slow means of communication and therefore not suitable for urgent message.
iii. The illiterate and blind cannot benefit from letters unless helped by the third party.
iv. It is time consuming especially for the busy people since it involves writing and sending.
v. Only those people with post office rental boxes enjoy the services of post office for receiving letters.
vi. Letters may get lost on the way.

2) **Telecom or telephone services**

This is one of the quickest means of oral communication where people speak to each other through the telephone receiver.

Advantages of Telephones

i. Telephones make it possible for one to make or receive a call from anywhere as long as the area has network.
ii. It is a very fast means of sending and receiving messages.
iii. It is accurate and relatively cheap.
iv. It saves money and time for moving.
v. It is convenient for the blind.
vi. Any language may be used on the phone.
vii. Mobile phones may be used for sending text messages hence being economical.
viii. It is easy to receive immediate responses as compared to a written letter.
ix. No land lines can be used or fixed on a fax machine to facilitate communication
x. Telephones are portable and therefore easy to move around with.

Disadvantages of Telephones

i. Their use is limited to only those who can afford to buy and maintain them.
ii. There is no physical contact between those who are communicating.
iii. There is limited privacy since phone information can be trapped by the phone companies.
iv. Mobile phones have negative health effect on the people who use them.
v. Mobile phone sets can easily be stolen.
vi. Mobile phones have promoted moral decay in society.

3. **Telegram services**

Telegrams are brief forms of written information sent by a method called telegraph.

The cost of telegram depends on the number of words you say and therefore it is necessary to use as few words as possible when sending a telegram.

The addressee receives a printed copy of the message either the same day or the following day.

Consider the given information:-

Dear Aunt, how are you? We are all fine at home except that Andrew has not been going to school for the past seven days. He is suffering from malaria and was admitted in Nsambya Hospital yesterday. You need to come and see him and also give us some funds for treatment and requirements.

Your loving daughter,
ANGELLA .K.

Below is the above letter summarized in form of a telegram.

Aunt, Andrew is sick admitted in Nsambya Hospital. Come with funds for treatment.

Angella.

4) Telex services

This is a method of sending written messages down a phone line from one teleprinter to another all over the world. The messages are typed on a sender's machine and directly sent on the receiver's machine.

The advantages with the telex are that:

- Even if the receiver's machine is unattended to, it keep the sent messages.
- Information is sent very fast and the reply is received immediately.
- Written information by a telex can be stored for future references.
- It works even if there is no operator at the receiving end.

The system is disadvantageous because it is only used by big a company which is a dis-service to small companies.

5) Fax services

This is a method of written communication where hand-written messages are transmitted over long distances .

It is one of the modern methods of written communication and it can be used to transmit drawings, marks over long distances in their real form.

6) Radio call services

This is also a modern communication system by which messages can be transmitted in one direction at a time such that when one is speaking, the other only listens. It is therefore necessarily to say over after one person has finished speaking as a signal to the other person to reply.

7) Franking machine services

This is a machine that prints the amount of postage on the envelope, name of the sender and the point of destination. The post office is paid the total amount indicated by the machine at the end of each month. Firms using franking machines therefore do not have to buy postage stamps.

8) Business Reply service

This is a method used by firms/individuals who want to get replies to the letters they have sent without the addressee meeting any expenses. Usually a card or an envelope is enclosed within the letter by the sender such that the addressee defects the reply using that card of envelope without meeting any expenses for postage.

9) Express and special delivery services

Under this service, the post office operates a messenger service where the letters are delivered to the addressee by the fastest means possible. An additional fee is charged for this service depending on the distance and weight of the letter.

The letter is marked with the words express at the left hand side/corner.

10) Select post

This is where an organization requests the post office to arrange the letters that the organization is to receive according to the departments in that organization. This means that the letters should bear the department where they are to be delivered. An extra fee is paid to the post office to this service.

FACTORS TO CONSIDER WHEN CHOOSING A COMMUNICATION MEDIA

i. The cost: One has to consider the cost involved when sending a message e.g. sending a letter may be cheaper than making a phone call.
ii. Urgency of the message: If the message is very urgent, it is better to use the fastest means of communication e.g. telephone.
iii. Reply: If the message requires an immediate reply, then it is better to use the telephone instead of using a letter.
iv. Confidentiality: If the message to be sent is confidential then the best method would be by using a letter or face to face.
v. Content of the message: If the message is detailed, it is better to send it using letters of face to face than using telephone.
vi. Need for reference: Messages requiring record of reference should be sent using letters instead of telephone, radio, face to face etc.
vii. Distance involved: Letters and telephones are the best for long distances compared to face to face communication.

BARRIERS TO EFFECTIVE COMMUNICATION

i. Language barrier: Language is a problem where interpretation of some information may be difficult
ii. Lack of interest in the message: Sometimes people may lack interest in the message. This means that the message may not be understood.
iii. Poor listening by the people who are supposed to receive the information. This may lead to misunderstanding of the information.

iv. **Differences in the way of communication among different people:** This may be due to differences in age, cultural backgrounds etc.
v. **Wrong contact address:** Some letters may not reach their proper destinations as a result of using the wrong address.
vi. **Distractions in the surrounding:** This may interfere with effective communication e.g. noise, bad smell, people passing by etc.
vii. **Delay in the transmission of information:** For example if a letter has been sent to inform some person about the death of another and such a letter is received after one month, it may not serve any useful purpose.
viii. **Political instability in some regions:** This leads to interference with the communication network.
ix. **Poor mobile phone networks in some areas:** This makes communication to such areas very difficult.
x. **Personality of the sender:** If the sender is hostile or if the information/message is not properly prepared, it may create a negative attitude among those who are supposed to receive the information.
xi. **Faulty translation:** This may result from the use of difficult words in letters and even telephone communication.

MEASURES TAKEN TO IMPROVE COMMUNICATION IN UGANDA

i. There has been liberalization of the communication industry. Many private investors have been allowed to invest in communication.
ii. Many new private investments have been set up to improve on communication e.g. F.M radios, mobile phone networks etc.
iii. The Uganda posts and telecommunications have been split into two i.e. Uganda Post Limited and Uganda Telecom Limited etc.
iv. Postal buses have been introduced to enable quick delivery of letters and parcels.
v. The computerization of telephone exchange systems has enables the handling of many calls at the same time.
vi. Mobile phone companies e.g. MTN, AIRTEL, Orange, UTL have expanded their networks to many parts of the country.
vii. Introduction of mobile phones has also increased use of phone services in the country.
viii. The introduction of the internet has also improved the level of communication and provision of information.

Guiding Questions:

1. Explain the various ways how the post office sends/remits money.
2. Write short notes on each of the following:-
    i. S.T.D (Subscriber Trunk Dialing)
    ii. P.B.X. (Private Branch Exchange)
    iii. P.M.X.B (Private Manual Exchange Branch)
    iv. P.A.B.A (Private Automatic Branch Exchange)
3. Explain the methods of communication
4. Explain the barriers to effective communication
5. What are the advantages and disadvantages of using telephones?

HOW THE POST OFFICE REMITS MONEY?

- Through money order:

The person wishing to send money is required to fill an application form which he must hand over to the post officials with the amount to be sent plus a small fee. The issuing post office will issue the sender with a receipt which will be sent in a different envelope to the payee. On receiving this letter, the payee takes it to his post office and claims the money.

- Through telegraphic money orders:

This is used for emergency payments. The payee is sent a telegraph that he uses to claim the money from the post office.

- Postal orders:

These are used for sending small sums of money. They are issued in fix denominations payable to any post office. Payment can be made to any person upon presenting it.

- Money order:

- Paying through the registered post office:

Under this form, a person pays a creditor by sending cash or cheques through registered post office. The post office usually offers special envelopes where money is sealed and sent to the payee's nearest post office.

- Postage stamps:

Some individuals accept postage from their debtor as payments to smaller or minor debts e.g. if you are staying in a rural area and you have a debtor living in an urban area, if it is a small debt for example one thousand, you can easily ask him to send you stamps of the same value. You take the stamps to the post office and money equivalent is given to you.

S.T.D - Subscriber Trunk Dialing

This is a system under which an individual can dial any number without passing through the switch board operator or post office.

P.B.X - Private Branch Exchange

This is an internal telephone service/system that connects various extensions of the same firm e.g. in a school there can be this system to bursar's office, staffroom, warden's office, secretary's office etc.

P.M.X.B - Private Manual Exchange Branch

This is a telephone system where the telephone operator connects all incoming and outgoing telephone calls in the organization.

P.A.B.X - Private Automatic Branch Exchange

This is where incoming and outgoing calls are made without connecting the telephone operator in the organization.

WAREHOUSING

This is an aids to trade which involves storing of raw materials until they are required. It protects goods and raw materials against atmospheric conditions, pests, rainfall, theft etc.

A warehouse is a place or room where raw materials, finished goods and essential tools are kept.

Types of warehouses

1. **Wholesalers ware housings (houses)**

These are warehouses owned by wholesalers and located at the wholesaler's premises where goods are purchased in large quantities and are stored until other traders (retailers) come for them.

Wholesalers also store seasonal goods in these warehouses and sell them during periods of no production at higher prices to make profits.

2. **Manufacturer's warehouses**

These are warehouses owned by manufacturers where they store raw materials and finished goods. Goods are stored by manufacturers until other traders come to collect or purchase them. Manufacturers without their own stores normally keep their goods in public ware houses.

NB: Manufacturers and wholesalers warehouses are at times referred to as private warehouses.

3. **Public warehouses**

These are warehouses owned by individuals which can be rented to any member of the public who needs warehousing facilities. Public warehouses are located in areas where people need warehousing facilities for hire e.g. near airports, docks, railway stations etc.

4. **Bonded warehouses**

These are special warehouses owned by the custom's department or government where people especially importers keep goods which have not cleared customs duty. Such goods can only be releases from the warehouse when duty has been cleared. Bonded warehouses are located near ports, airports and other handling terminals. These warehouses may also keep illegal goods.

Importance of Bonded warehouses

a) **To the government:**

i. The government is ensured of revenue collection from imported goods since they are only released after customs duty is paid.
ii. Bonded warehouses help the government to check on smuggling.
iii. Undesirable goods can easily be detected and prohibited to enter the country.

iv. It is not easy for importers/people to evade customs duty since goods are only releases after paying it.

b) **To the importer:**

i. The importer pays low customs duty in case the goods lose weight while in the bond. This is possible since customs duty is levied according to the weight of goods.
ii. The importer can look for market/buyers before paying customs duty or while the goods are still in bond.
iii. The importer may decide to re-export the goods and therefore pays low duty but only pays storage charge.
iv. While in bond goods may be advertised, blended, pre-packed and branded while in bonded warehouses.
v. The importer does not pay customs duty in case the goods are bought while in bond. In this case customs duty is passed onto the buyer.
vi. The owner of the bonded warehouses allows payment of duty installment which help business men with insufficient funds to get small quantities of goods they can sell and get the funds to clear the rest of the goods in the bond.
vii. The importer's goods are safeguarded against theft since security is provided at the warehouses.

To the public

- The consumer receives better quality of goods.
- The consumers are assured of constant supply of goods.

CHARACTERISTICS/QUALITIES OF WAREHOUSES

i. It should be large enough to accommodate goods in large quantities and ensure steady supply of goods to people.
ii. It should have good security to protect goods, raw materials and other property in the warehouse.
iii. It should be well ventilated and not leaking.
iv. It should have skilled and committed personnel to create efficiency (for proper record keeping to avoid losses).
v. It should be properly planned i.e. set under proper departments for effective operations.
vi. It should be strategically located for proper utilization.
vii. It should be free from pests and diseases to avoid losses.
viii. It should have enough transport and communication facilities.
ix. It should have enough facilities for handling goods e.g. cranes (lift heavy things, refrigerators etc)
x. It should have a good accounting system to determine the income and expenditure of different debts.
xi. A large warehouse is made of several departments which include the following:-

a) **General administration department**

The warehouse is headed by the board of directors under a skilled chairperson. Under this board, there is a general manager/managing director to whom all heads of other departments are answerable. In other words, it controls all departments.

b) **Purchases department**

The department is headed by the purchases manager and it is responsible for buying stock to the warehouse. Other functions of this department include:- placing orders for goods needed in the warehouse, looking for cheap sources of supply and accessing changes of fashion etc.

c) **Sales department**

This department is headed by the sales manager/marketing officer and it is responsible for ensuring the market for the goods stocked by the warehouse. Other functions of the department include:-

- Carrying out sales promotion strategies or advertising goods.
- Receiving orders from buyers and ensuring that the goods ordered for are sent out or delivered.
- Handling customers complaints regarding the goods supplied.
- Ensuring that goods required by the customers are available.

d) **Transport department**

This department is headed by the transport officer and ensures that the distribution of goods is done efficiently.

Other functions include:-

- Moving goods from suppliers and delivering them to the warehouse.
- Delivering goods to the buyers who purchase in large quantities but without transport means.
- Ensuring that necessary vehicles are available and are in good conditions to carry goods or raw materials.

e) **Accounts/Finance department**

This is headed by the chief accountant or the finance manager and it is responsible for:-

- Preparing financial reports about all transactions.
- Handling the budget of the warehouse.
- Controlling the availability of money in the warehouse.
- Finding out the employment opportunities available in the warehouse.
- Preparing invoices and sending statements to customers.

f) **Legal department**

This department is headed by the company secretary or legal officer and it handles all legal procedures and documents of the warehouse. Such documents may included; certificate of incorporation, insurance policies etc.

The department also ensures that there is good relationship between the general public and the warehouse.

ADVANTAGES OF WAREHOUSING

i. Warehousing helps in stabilizing prices of goods since goods are kept safely when they are produced in plenty and released gradually in the market to meet the prevailing demand.

ii. Warehousing encourages traders to stock a variety of goods.
iii. Public warehouses provide shortage for goods belonging to producers who do not have enough room for such commodities. This protects them against damage.
iv. Warehouses act as reservoirs thereby enabling shortage and supply of goods to continue throughout the year.
v. It helps in preparation of goods for sale, goods can be graded, branded, packed and even processes while in the warehouse.
vi. It facilities re-export or entreport trade i.e. exporting a commodity that was formerly imported.
vii. It facilitates payment of duties. The trader may procure funds for duties or taxes while goods are in the warehouse.
viii. It helps in reduction of operation expenses of the trader by way of saving on transport costs.
ix. Warehousing enables the importer to pass on duties to the buyer while still in the warehouse.

Guiding questions:

1 (a) What is warehousing?
(b) Explain the types of warehouses found in Uganda.
(c) Of what benefit is a warehouse to a business man?

2 (a) Describe the organization of a warehouse of a large scale business.
(b) How does warehousing facilitate trade?

3 (a) Explain the advantages of a bonded warehouse to
(i) the government (ii) the public (iii) the importer
(b) What are the qualities of a good ware house?

TRANSPORT

This is defined as the movement of people, goods and services from one place to another. Transport is another aids to trade in commerce which assists in the production process.

Importance of Transport

i. Good or efficient transport leads to the development of regions by opening them up to the production process.
ii. Transport provides employment opportunities to people like drivers, pilots, road workers etc. This helps to improve on their standards of living through the income they earn from the sector.
iii. It promotes international trade. Countries interact with one another through transactions that are made by transporting goods from one country to another.
iv. It avails goods and services to people enabling them to make a better choice.
v. It enables movement of goods from places of surplus to places of scarcity which also enables people to enjoy goods which are not produced in their local areas.
vi. It facilitates industrial growth and development through transportation of raw

materials from their production areas to manufacturing plants.

vii. It also enables people to reach their places of work in time.

viii. It promotes international specialization in terms of production. Countries produce goods where they incur low costs of production and exchange with others through transport.

Forms of Transport

1. Road transport

It consists of cars, buses, lorries, head porters, wheel barrows, bicycles and motorcycles and it involves the movement of goods and services from one place to another.

Advantages

i. It is the cheapest means of transport especially for short distances compared to air transport.

ii. It is easy to construct roads as compared to other systems e.g. the railway transport.

iii. Road transport is in use all the time since it also does not have any timetable. It is therefore convenient to the passengers.

iv. It promotes advertisement especially trade shows, promotions e.g. Coca Cola, video promotion by use of trucks that use roads to travel to different places.

v. It helps in carrying goods over short distances especially perishables like tomatoes, bread, drinks etc.

vi. It is flexible especially when picking people from the main road to small feeder roads.

vii. Selling and collection of goods along the roads is possible especially food stuffs which has led to the development of small towns along the roads.

viii. In road transport, insurance costs are low compared to railway where they are high.

Disadvantages

i. The rates of accidents are high especially in urban areas like Kampala to Masaka road

ii. Traffic congestion and jam normally occur in urban centres making a delay for goods and services. Some of the perishable goods may go bad in the process.

iii. It is expensive for long distances due to high taxes on fuel.

iv. Highway robbery is possible especially through heavy forests like Mabira, Mpanga where robbers and thugs hide.

v. Road transport is too slow especially heavy lorries or trucks that cover long distances while loaded.

vi. Road transport may not be used during bad weather conditions especially murrum roads during heavy rains.

2. Rail transport

This involves the using of trains to transport people and goods from one place to another. Railway transport is suitable for carrying heavy cargo for long distances.

Advantages

i. Trains cannot be easily affected by traffic jam since their movement is timetabled.

ii. Goods transported by railway transport are not affected by robbers and thugs because they are kept in containers which are safe.
iii. It is suitable for carrying heavy and bulky goods like copper, coffee etc since containers are used.
iv. It cannot easily be affected by bad weather unlike for the case of road transport.
v. The rate of accidents is minimal as compared to road transport.
vi. It is quiet cheaper when transporting heavy goods for long distances as compared to other forms of transport like air and road transport.
vii. Return cargo can be arranged since trains move with timetable schedules.
viii. Special containers may be designed for particular commodities and people.

Disadvantages

i. It is a slow means of transport for over long distances.
ii. Some perishable goods cannot be transported by railway transport especially food stuffs because trains tend to delay on the way.
iii. It is only possible in areas with a flat environment and impossible in areas which are mountainous and hilly.
iv. Construction of a railway line is very expensive because it requires skilled and adequate man power/personnel, equipment and financial resources to do the work.
v. Railway transport is not flexible because it follows a given timetable (railway system is rigid and inconvenient) unlike road transport where people can board on and off at their own convenience.
vi. Goods normally delay at the deposits station because of clearance procedures.
vii. Railway transport is expensive over short distances.
viii. Railway transport involves high maintenance costs e.g. high insurance costs as well as repair.

Question:

a) What are the advantages of railway transport over road transport?
b) Explain the advantages and disadvantages of road transport in Uganda.

3. **Water Transport**

This involves the movement of goods, passengers and cargo over water bodies on mainly rivers, lakes, oceans etc. There are several water vessels used i.e. oil tankers, boats, ships, steamers, ferries etc.

Advantages

i. It is cheap for bulky goods and materials.
ii. It is not affected by traffic jam unlike road transport.
iii. The rates of accidents under water transport are minimal compared to road transport.
iv. Container packing is possible when using water transport hence reducing the rate of theft, loss and damage of goods.
v. The use of automatic cranes makes easy work of loading and off loading.
vi. Special vessels can be constructed to carry particular goods e.g. refrigerators.
vii. Water transport can be used to carry perishable goods e.g. milk, fish, flowers, fruits etc.

Disadvantages

i. It is affected by weather changes especially during rainy seasons, where it can affect the direction to which the water vessels are to go hence leading to accident.
ii. In case of an accident, chances of survival are limited depending on where the accident has occurred.
iii. The ports or harbours may lead to loss of cargo because of condition during the time of clearing.
iv. Some water bodies tend to freeze during winter making them out of use.
v. Port or harbour congestion may lead to delay of delivery of goods.
vi. Water transport is limited to only areas of water bodies.
vii. The speed of water vessels is low and therefore this may not favour perishable goods to be transported over long distances.
viii. Heavy loads may not go over shallow water vessels.
ix. It is not flexible.

Containerization

This is the packing of goods in a metallic container or wooden container which are then sealed at the exporter's premises until they reach at the importer's place.

Advantages

i. Goods packed in containers are not affected by weather changes i.e. in case of rain, goods are not affected.
ii. Theft and robbery problems are minimized since goods are packed and sealed at the exporter's premises and are not opened until they reach at the importer's premises.
iii. It saves time which be wasted loading small number of packages on the ship. Cranes are used to load on and off the containers hence time saving.
iv. It is also labour saving since one crane is used to lift a large package when many men could be involved.
v. Special containers may be constructed to carry special goods e.g. crude oil, chemicals, consumable goods like salt, sugar, food stuffs etc.
vi. It is possible for the producer (exporter) to avoid taxes since sometimes goods are mixed up leading to tax avoidance.
vii. It promotes the use of modern cargo loading or handling facilities like cranes which reduces on the chances of damage which is likely to occur when human beings are used.
viii. Properly packed goods in containers accommodate or take large quantities of goods than it would be possible for goods packed on ships.
ix. Empty containers can be used for other purposes i.e. shopping arcades, barber shops, stores etc.

Disadvantages

i. Containers are very expensive to acquire i.e. special equipment, shops etc.
ii. Containers are not good to transport some goods like animals.
iii. Containers are too heavy i.e. cannot be handled without the use of machines which makes work difficult in case of absence of machines.
iv. Incase there is delay in packing goods, there will be delayed delivery of goods as a result of using containers.

v. It is unsuitable for small quantities of goods. Container is shared (used) by many exporters. One may take another's goods accidentally or intentionally.

vi. It is at times uneconomical since containers are returned empty after off loading the commodities.

vii. In case the taxes are dodged, the government is likely to lose revenue since exporters always look for the gap or loop hole to avoid taxes.

Types of Water Vessels

1. Passenger linnears:

These are vessels which transport passengers and some cargo. They sail on a time table and do not wait for passengers of cargo delayed.

2. Cargo linners

These are vessels mainly for cargo and they carry only the driver and the turn boy. They are sometimes called stamps.

3. Bulky carriers/freighters

These are vessels bought for transporting particular bulk type of goods e.g. iron ore, copper etc.

4. Oil tankers

These are basically to carry crude oil to refine it and sometimes carry refined oil to markets.

5. Roll on and Roll off ferries

These are large ferries/carrying vessels that are used to transport goods i.e. vehicles are simply driven onto the ferries at the trading plant and off loading point/point of destination.

Terms used in Water Transport

a) Charter party

This is an arrangement between the shipping company and the consigner or owner of the goods to carry the goods to the specified destination. The consigner and the shipping company will agree on terms of transporting goods and takes the responsibility of ensuring that the goods have reached the final or right destination.

b) Bill of lading

This is a contract between the ship owner and the cargo owner to transport the goods to another destination by hiring in specific period of time. It involves all the details of transporting the goods to the importer's premises.

4. Air Transport

This is the most convenient and fastest means of transport. It involves the movement of goods and passengers from one place to another using crafts.

Advantages

i. It is the fastest means of transport as compared to other forms like road, railway and water transport.

ii. It is the best means for delivering delicate goods i.e. goods that can easily break e.g. glass.
iii. There are limited chances of loss of property because security is highly observed.
iv. It is suitable for long distances without stopping since the crafts cannot stop anywhere until they reach the point of destination i.e. airport.
v. It is the most comfortable form of transport free from topographical barriers e.g. mountains, hills etc. Even meals and drinks are served in the crafts.

Disadvantages

i. It is the most expensive system of transport compared to other forms of transport like road, railway and water transport.
ii. It is costly in terms of fuel and flying operations since fuel is expensive.
iii. Air crafts cannot take cargo and passengers to their final destination but they are dropped at the airports unlike road transport which moves door to door while delivering. (boda-boda)
iv. Weight of cargo and passengers to the final destination is limited i.e. specified in terms of quantity due to the fear of accidents.
v. In case of accidents, all cargo and passengers are likely to be destroyed completely since it flies at a high altitude.
vi. Weather conditions may interfere with air services. In case of weather changes it may affect the direction of movement of the air craft.
vii. Procedures involved e.g. passports, visas, medical forms etc.

Note:

Airway bill: This is the document drawn between the airline company and business organizations using it to carry their goods.

An airway bill is similar to the bill of lading except that an airway bill is used for air transport and a bill of lading is used for water transport.

5. Pipe line transport

Under this system, pipes are used to carry fuel, water and gases from one place to another.

In Uganda today pipes are used to carry water and sewerage disposals in major urban centres. From Nairobi to Mombasa, there is a pipe line for petroleum.

Advantages

i. Because they pass underground, pipeline transport is not affected by atmospheric changes i.e. weather changes.
ii. Speed is reasonably high because the flow of movement is not limited until it is tapped off.
iii. The cost of running/operating pipe line transport is quiet low as compared to other forms of transport since it does not involve fuel costs.
iv. Large volumes of liquids and gases can be transported within a short period of time since they can flow in large amounts hence saving time and cost of production.
v. It reduces traffic congestion and the rate of accidents on roads which could be

caused by fuel tanks.

Disadvantages:

i. Pipe line transport is only limited to transportation of liquids and gases. It does not transport solid goods.
ii. In case of pipe rusting, it can easily lead to contamination of water and any other liquid which may lead to complication to those who consume it.
iii. Pipe repairs are too costly and difficult to locate where the pipes passed.
iv. It may be affected by thieves in certain places not occupied by people.
v. Installation of pipes is very expensive especially with long distances. This is because the cost of acquiring pipes is so high thereby making it expensive.
vi. In case of leakage of pipe, this breakage leads to loss of resources since the liquid will flow out thus being wasted.

Factors that influence the choice of means of transport

i. The nature of commodity to be transported e.g. fragile and perishable goods need special handling. They may not be transported by rail or water transport.
ii. The cost of transport. This cost should be reasonably small in proportion to the value of goods.
iii. Speed and urgency. Goods needed urgently may be transported by urgent means e.g. air.
iv. Distance involved. For short distances, road transport may be used while long distances rail and water transport may be used.
v. Weight and size of goods. Heavy goods are economically transported by water and rail transport while light ones are transported by road and air.
vi. Value of goods. Highly valued goods should be transported by air e.g. diamonds. Less valued goods should be transported by foot and secure means of transport of air.
vii. Flexibility. The ability of mode of transport to reach any destination is important. In this case, road transport is flexible than any other means of transport.

MONEY AND BANKING

Money is defined as anything that is generally acceptable as a medium of exchange.

Evolution of Money

The earliest form of exchange was barter trade. This is a form of trade where goods are exchanged for goods. Due to the disadvantages of barter trade, this type of trade was abandoned leading to the coming up of commodity money. Commodity money involves the use of certain commodities such as salt, tobacco, maize etc to determine the value of other commodities. These commodities were used because they had value i.e. they could be used to satisfy human needs.

However commodity money also had its disadvantages. Some of the commodities were bulky while others were perishable and therefore could not serve as good money.

Commodity money was replaced by durable metals/items e.g. copper, iron, gold etc. These were adopted because they were long lasting.
However these durable metals/items also had disadvantages. At times they were in plenty and at times they could be scarce. This made them less suitable as a medium of exchange.

Later on coins were developed as an alternative. These coins were made mainly from the metals of high value e.g. gold and silver.

BARTER TRADE

This refers to the exchange of goods for goods. It was the earliest system of exchange.

Advantages

i. It enables one to get a commodity or service one never had before.
ii. It eliminates the use of money or different currencies which also have problems of exchange rates.
iii. Barter trade can easily be carried out since it does not involve the use of many documents.
iv. It reduces the risk of moving with large amounts of money which may easily be stolen.
v. Barter trade promotes social understanding between the parties involved in exchange.

Disadvantages

i. Barter trade is based on double coincidence of wants. For exchange to take place, each person involved must be willing to take what the other person has. This is often very difficult.
ii. Transport problems: It involves moving long distances looking for a person who has what you want and also needs what you have.
iii. The problem of determining the amount of goods to be exchanged. It is difficult to decide on the value and quantity of each commodity to be exchanged with another.
iv. The problem of commodities that are not divisible. It is difficult to exchange

commodities that are not divisible for small units of other commodities.

FUNCTIONS OF MONEY

i. Money is a medium of exchange. People exchange what they have for money which money they later use to buy what they do not have.
ii. Money can be used as a tool of monetary policy.
iii. Money is a store of wealth/value. People can keep their wealth in form of money since it is portable, durable and can easily be converted in other forms of wealth.
iv. Money is a means of future payment. It facilitates commercial transactions on credit where payment is done in future.
v. Money is a unit of account used to express prices of goods and services and at the same time facilitating business calculations.
vi. Money acts as a measure of value. The value of commodities and the assets is expressed in money terms.

QUALITIES OF GOOD MONEY

i. Acceptability: Good money should be generally accepted.
ii. Portability: Good money should be convenient to carry. It should neither be too heavy or too bulky to carry from one place to another.
iii. Divisibility: Good money should be divisible in a way that it is easy to pay even for the cheapest items.
iv. Homogeneity: One unit should be identical with others especially when they are at the same value. A 1000 note should be exactly similar to another 1000 note.
v. Durability: Good money should be able to last for a long period of time so that it can be used for longer periods since it is expensive to print this money.
vi. Stability: It should have a stable value for a long period of time so that it can be used for longer periods of time without changing.
vii. Scarcity: Good money should be relatively scarce (limited) in supply so that it maintains its value since money losses value it is in plenty.

BANKING

A bank can be defined as an institution that accepts deposits, credits and safeguards the money received from its clients and makes it available when they need it.

It also advances loans to those who wish to borrow therefore a bank is generally defined as a business organization that undertakes the safe keeping of people's money.

TYPES OF BANKS

1. Central Bank

This is an institution which controls all other banks in the country and it also acts as a financial agent of the government.

A central bank is established by the government e.g. in Uganda, Bank of Uganda is the central bank that regulates the circulation.

2. Commercial Banks

These are banks established to the aim of making profits for their owners. The main source of their earning is the interest charged on the loans advanced. Examples include, Standard Chartered Bank, Stanbic Bank, Bank of Baroda, Centenary Bank, Housing Finance Bank etc.

3. **Co-operative Banks**

These are mainly banks for the fast growing movements like co-operative unions. These lend money to organizations but not individuals.

4. **Development Banks**

These lend money to the public for development of projects and are mainly used by farmers and business men to carry out trade. They also accept deposits from such individuals e.g. Central Development Bank.

5. **Specialized Banks**

These are banks that serve a special type of customers all that are aimed at providing special type of service. E.g. Housing Finance Company that provides funds for buying and building houses only and co-operative banks which mainly serve co-operative societies.

6. **Saving Banks**

These are banks mainly intended to provide a safe place for keeping money on behalf of their clients. They accept small deposits, pay interest on such deposits and offer a limited withdraw facilities. The most common and biggest saving bank in Uganda are the Post Office Savings Bank.

FUNCTIONS OF COMMERCIAL BANKS IN UGANDA

i. Commercial banks provide facilities for domestic and foreign trade i.e. they assist traders in international trade by generating payment to overseas supplies through telegraphic money transfer.
ii. They safeguard consumers' money (accept deposits) by permitting them to open up various types of accounts.
iii. They provide excellent means of payment in form of cheques.
iv. They offer advise for investment matters, types of accounts to open to their clients.
v. They often provide working cash for the businessmen by extending short term loans to them.
vi. Commercial banks can advise and encourage entrepreneurs on whether to invest on a project or not through the section or department. This enables entrepreneurs to invest in productive ventures.
vii. They collect money on behalf of their customers and this is through:-
   - Accepting money from individuals and deposit it on their customer's account.
   - Presenting cheques deposited by their customers to others.
   - Accepting credit transfers from their customers' accounts.
viii. Making payment on behalf of their customers. Commercial banks serve as paying stations of money from the customers through the cheque system.

TYPES OF ACCOUNTS

There are mainly three (3) types of accounts used in Uganda namely:- Saving account, current account and fixed deposit account.

1. **Current Accounts**

These are normally operated by business men like sole traders, partnerships and limited companies. Current account has the following characteristics:-

i. It requires a minimum initial deposit of 100,000/= especially in commercial banks.
ii. The holder of the account can make deposits any time in any form e.g. cash, drafts and cheques.
iii. Withdraws can be made in form of cheques and cash and it does not require a minimum balance to be maintained i.e. an account holder is free to withdraw all his deposits.
iv. Cheque book facilities are available i.e. cheque books are issued to current account holders.
v. A current account holder is issued with a bank statement at the end of each calendar month.

   Note: A bank statement is a record of all transactions made by an account holder during the month.
vi. In a current account, draft facilities are allowed.

2. **Savings account**

These are accounts offered by both saving and commercial banks and they are provided to encourage small savings.

Characteristics of saving account

i. A minimum initial deposit is required and differs from bank to bank e.g. Centenary bank and Post Bank require an initial deposit of 10,000/=
ii. Money can be deposited any time.
iii. Withdraws are allowed at most twice a week and there is always a limit and the maximum amount that can be withdrawn at a time.
iv. No cheque books are provided to account holders.
v. Account holders are issued with passbooks which contain recent deposits and withdraws. This is common with Post Bank Uganda Limited.
vi. On a saving account, there is a fixed minimum balance required e.g. Stanbic Bank is 10,000/=
vii. Saving accounts do not offer overdrafts services to their account holders.
viii. No bank statements are issued to saving account holders.

3. **Fixed/Time deposit account**

These are accounts opened by those individuals who have spare money that they do not need in the near future.

Characteristics/features

i. Accounts are opened for a specific period e.g. month, 2 years etc.
ii. This account can be opened with a specific amount and no withdraws are allowed before the expiry date.
iii. The deposits can be used by commercial banks to advance loans to other people.
iv. The account holders are issued with a receipt which they must present to withdraw their money at expiry date. The account holders also have to remind the

bank one week before so that they may make payment arrangements.
v. The deposits can be used as security to apply for a loan in another bank.

CHEQUES

A cheque is a written order by the drawer to his bank to pay on demand a specific sum of money to a person named on it.

Or

It is a written order from an account holder to his bank to pay a specific sum of money of the named person.

It has three parties
(i) Drawers
(ii) Drawee
(iii) Payee

(i) Drawer

This is a person who writes a cheque including the account number, where payments are to be made and signs it. In other words, a drawer is an account holder with specified bank instructing it to pay the named person by use of cheques.

(ii) Drawee

This refers to the bank to which the bank the cheque is drawn. In other words the paying bank is the drawee.

(iii) Payee

This refers to the person entitled to receive money and it is to whom the cheque is made payable.

FORMAT OF A CHEQUE

a) A date

A cheque is dated on the day it is drawn and this is to remind where the drawee has an account and that it was issued or given out.

b) Name of the payee

The name of the person to be paid is stated immediately after the word pay.

c) Amount

The amount of money to be paid is written in words and figures. It must correspond.

d) Signature

The drawer of the cheque must sign in designated cheques of the bottom. This sign must be the same like the specimen signature used in the bank and sometimes a thumb print may used for people who cannot read and write.

e) Counter foil/serial No.

Each cheque is attached to a counter foil which bears the same serial number as that of the cheque. The counter foil enables the customers to keep records of the payment by the cheques and it also enables him to check on the bank statement.

Specimen of a cheque

A. No. 24/973 14/03/009 Payment	B. No. 24/973 Centenary Rural Development Bank Pay Mr. Mpanga an order One hundred thousand shillings only Account No. 6,301 Signature

A is the counter foil
B is the cheque

A + B is a cheque list

Drawer - Mukasa Steven
Drawee - Centenary Rural Development Bank
Payee - Mr. Mpanga
Drawer's account no. 61301

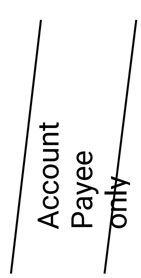
TYPES OF CHEQUES
They are basically divided into two:-

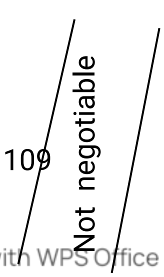
1. **Open cheque**
This is a cheque that can be cashed across the counter but money on the cheque may be deposited on the payee's account. There are two forms of open cheques:-
(i) *Bearer cheques*
These are cheques on which the payee is not named. This means that anyone presenting it will be given money provided the drawer's account has enough money at the bank. These cheques are very risky in that even a thief can get a chance to get the money.

(ii) *Order cheques*:
These are cheques in which the payee is named. An order cheque is only payable to a named person on its space.

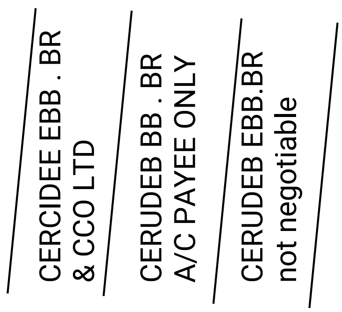
2. **Crossed cheque**
This is one which bears two parallel lines across its face. This cheque cannot be cashed at the counter but may be deposited in the bank to be credited on the payee's account in the near future. There are two types of crossed cheques:-

(i) *General crossing*
This is made by drawing two parallel lines writing between them any of the following i.e. Account payee only, not negotiable.





(ii) *Special crossing*
This is made by drawing two parallel lines and entering between them in addition to the words mentioned above.



The difference between the general and special crossing is that with a cheque that has been crossed generally, funds can be transferred to another person legally while special crossing, the payee cannot transfer funds to another payee.

Other categories;

1. Post dated cheques

This is one being written out with a date which has not yet come. The aim of this cheque is to delay payments especially where the drawer has insufficient funds on his account or has refunds. The person named can only be cashed when the date stated has matured/come.

2. Stale cheque

This is one that has been written out and stays for 6 months beyond which the bank may refuse to pay.

3. Blank cheque

This is a cheque bearing the drawee’s account only. This cheque is signed by the account holder without indicating the amount to be paid out. This kind of cheque is very risky because anyone can fill in any amount of money and gets paid by the bank in case the account holder has sufficient money.

4. Stopped cheques

These are cheques that cannot be paid by bank because of the account holder instructing the bank not to advance any money to a specified cheque. This may happen if some cheques were stolen from him.

5. **Counter cheques**

These are cheques sold at the bank counter to the customers who on reaching the bank may realize that they do not have their cheque books. In such situation, proper identification by the customer to the bank is required before a counter cheque is sold to him. However, it should be noted that most banks discourage the use of this system for security reasons.

6. **Dishonoured cheques**

These are cheques which the bank has refused to cash. A cheque may be dishonoured under the following circumstances:-

i) When the cheque is not dated
ii) When the cheque is not completely signed.
iii) When the cheque is forged.
iv) If the drawer does not have enough money on his account to cover the amount written on the cheque.
v) If the amount in words is different from the amount in figures.
vi) If the cheque is post dated and is presented to the bank before the maturity date.
vii) If the drawer's signature is different from the special signature held by the bank.
viii) If the drawer has notified the bank that no payment should be made due to occurrence of the death of the account holder or due to stolen cheques.
ix) When the drawer has closed his account with the drawee (bank).
x) In case the cheque is stale i.e. if it has stayed beyond the expected date.
xi) If the cheque is damaged or mutilated torn.

Advantages of cheques

Payment by cheque system is one of the most common ways of settling debts in the modern commercial world and the following are the advantages of cheques:-

i. The cheque system is convenient because it takes a very short period of time to write than counting the bank notes and coins.
ii. It enables large sums of money to be transferred from one person to another with little or no risk of theft.
iii. It is very safe. Cash can be used after the cheque has been deposited especially through crossed cheques.
iv. Counter foils of the cheque books are necessary for payments and this helps the account holder to keep records.
v. Cheques are easier to move with than cash which is bulky in most cases and heavy in case of coins.
vi. A cheque paid is evidence that payments have been made and consequently a written receipt needs to be obtained.

Disadvantages of cheques

i. A cheque may be rejected by the bakers for some reasons like if it is not dated, if it is forged, not signed etc.
ii. Cheques are not legal tenders unlike bank notes meaning that an individual has a right of refusing payment by a cheque.

iii. Cheques are not safe because they can be cashed to anybody presenting it to the bank.
iv. A person paid by use of a cheque may not easily and quickly use the money because he has to move to the bank to deposit the cheque and at times wait for the day to get the money.
v. Cheque books are paid for by the account holder e.g. leaf book may cost 5000/= which means that for any cheque written out the drawer incurs 200/= as extra.
vi. Cheques written to be paid by the bank take a long period of time to mature i.e. 2 – 3 weeks which delays a person to use his money.
vii. Given the high illiteracy levels prevailing in the country, the majority of people will not understand the function of the cheque and can end up rejecting them.

Reasons why the use of cheques is not very popular in Uganda?

i. Cheques sometimes take long to mature.
ii. Most people are illiterates or ignorant and do not know how to use cheques.
iii. Some people fear cheques to be dishonoured by banks due to dishonesty among people because it is not legal tender.
iv. Most banks are limited to urban centres i.e. not well distributed hence leaving the rural people out of the system.
v. Most people prefer operating accounts which do not use cheques.
vi. Majority of people prefer keeping the money at home instead of banking.
vii. Most people are engaged in small transactions which make cheques economical.

BANK OVERDRAFT

This is defined as a temporary loan whereby a bank current account holder is allowed to withdraw money over and above what he has on his account.

THE ROLE OF COMMERCIAL BANKS IN THE DEVELOPMENT OF AN ECONOMY

i. They facilitate the process of capital accumulation or formation through the promotion of savings and investments. This expands the capacity cad leads to economic growth and development.
ii. Commercial banks provide the desired infrastructure like roads and research centres which facilitate development.
iii. They are media through which the government programmes are executed e.g. rural farmers' schemes, crop finance schemes which are sponsored by commercial banks.
iv. They offer employment opportunities to the nationals at different branches.
v. By advancing loans on industry, agriculture and other productive capacity of the country.
vi. They cultivate savings habits in the nationals by offering reasonable interests on saving deposits.
vii. Commercial banks increase government revenue through taxing the profits they make.
viii. A well developed commercial sector facilitates the development of international trade through enjoying its advantage.
ix. Commercial banks carry out investments. Some of their money is invested in form of shares, debentures and other assets which improve the capital accumulation and lead to development.

PROBLEMS FACED BY COMMERCIAL BANKS

i. The large subsistence sector: Uganda's economy is largely subsistence and depends on a few crops for export which restricts the banking sector.
ii. The high illiteracy level: These have also hindered the development of banking habits especially in rural areas where many people do not know how to open accounts.
iii. Conservation: Many people in Uganda are still conservative about keeping money in the bank. Some still want to keep it in tins, under beds or underground and this hinders development of commercial banks.
iv. Low income levels of many people in Uganda: This limits level of saving hence limiting banking.
v. Poverty: This is widely spread in the country and people tend to look at current survival rather than saving for the future.
vi. Political instability: In some parts of the country e.g. northern Uganda, there are rebel activities which scare away the establishment of commercial banks.
vii. Presence of untrustworthy customers: These make the conditions of giving out loans rigid hence limiting the service of commercial banks to the customers.
viii. Foreign ownership: Since most of the common banks are owned by foreigners
ix. Nationalization of commercial banks: Such as commercial banks are characterized by mismanagement and corruption hence leading to
x. There are limited skilled personnel in the banking sector. This hinders development as well.
xi. High interest rates set by Bank of Uganda scares away borrowers hence limiting the development of banks.

THE CENTRAL BANK

A central bank is the national bank of any country that is established and managed by the government to control and guide other financial institutions in the country. It is the main financial institution in the country established and controlled by the government. To control and guide government finance, commercial banks and other financial institutions. In Uganda, Bank of Uganda is the central bank.

FUNCTIONS OF THE CENTRAL BANK

i. The central bank offers banking facilities to the government as well as the commercial banks which then provide such services to general public.
ii. It is also responsible for controlling the volume of money in circulation through monetary policies. The central bank is the only body in the country allowed to print and issue new currency on behalf of the government.
iii. It acts as a banker to financial institutions like IMF, World Bank etc. Each of these organizations has an account with the central bank of the country.
iv. It acts as a lender of last resort. If commercial banks fail to raise the necessary cash to settle their customers' demands, the central bank can lend them money; likewise the government too can borrow from the central bank.
v. It controls and monitors all financial activities of commercial banks.
vi. It acts as the controller of credit in the economy through regulating the amount of money in circulation by using a number of monetary tools like bank rates, open market operation.

vii. It collects and keeps data or information concerning various aspects of the country's economy.
viii. It is responsible for paying the money that the government borrows.
ix. It controls foreign currency in the country and therefore before any foreign currency is converted to local currency, permission has to be sought from the central bank.

FUNCTIONS OF CENTRAL BANK TO THE GOVERNMENT

i. It accepts deposits from the government e.g. extra revenue from taxes.
ii. It extends short term loans to the government.
iii. It makes out payments to commercial banks on behalf of the government.
iv. It connects the government to the foreign institutions abroad like the IMF and World Bank.
v. It manages the public debt on behalf of the government.
vi. It helps in the formulation of budgets and establishing statistics on behalf of the government.
vii. It advises the government on financial and economic affairs.
viii. It is the bank where government bodies and institutions keep their money for their activities.

TOOLS OF MONETARY POLICY/MTDS/INSTRUMENTS

This refers to a government policy established to regulate money in circulation and other economic activities within the country through the central bank.

Alternatively, it refers to the various methods adopted by the central bank to control credit (money); during inflation, the central bank adopts measures to reduce money in circulation through the use of the same policies.

These tools include:

1. Bank Rate:

This refers to the rate of interest charged on commercial banks when they borrow money from the central bank.

When the central bank wants to increase money in circulation, it will decrease the bank rate to create room for the customers to borrow while if the central bank wants to reduce money discouraging other banks to get loans which they would give their customers.

2. Open market operation:

This involves the sale or purchase of government security to and from the general public respectively. When government wants to reduce money in circulation, it buys off security from general public which reduces their purchasing power and when government wants to increase money in circulation, it sells off big securities to the general public hence increasing their purchasing power.

3. Selective Credit Control:

Under this the central bank may restrict or limit leading to only specific creditors. This reduces the amount of money in circulation while when government wants to increase money in circulation. It lends money to the different institutions that need it through commercial banks.

4. Cash Ratio/Liquid Reserve Ratio:

This is a counter foil used by commercial banks to keep a certain percentage of the deposit in cash. The central bank may rise the cash ratio in order to reduce money in circulation and may reduce the cash ratio when it wants to increase money in circulation.

5. Compulsory deposit

This is one of the most effective instruments of monetary policy. Under this, commercial banks are required to make and maintain certain proportions of their deposits with the central bank which varies according to the prevailing conditions in the economy. When the central bank increases the deposit, money in circulation reduces and when it reduces the deposit money in circulation increases.

6. Legal Reserve Requirement

This is where by law commercial banks are required to keep a minimum balance with the central bank. The central bank may raise the legal minimum revenue required or reduce it. If it reduces it, there will be increase in money in circulation and if it increases, there will be a decrease in money in circulation.

7. Marginal Requirement

This is the difference between the amount of the loan and the value of the asset given in. when the central bank wishes to restrict credit, it will increase the marginal requirement while when it wishes to increase money circulation, it reduces the marginal requirement.

8. Currency Reforms

The central bank asks the public to forward certain notes and coins for exchange. When money becomes excessive, the government finds it necessary to carry out currency reforms so as to reduce the amount of money in circulation and then the value of money.

9. Moral Suasion

This is where the central bank persuades, requests, appeals and advises the commercial banks to control and regulate their lending policies. This reduces inflation and money in circulation.

FACTORS THAT HINDER SUCCESSFUL OPERATION OF THE MONETARY POLICY IN UGANDA

i. Ignorance of the public about the tools used by the central bank e.g. open market operation, selective credit etc. Many people do not understand how these tools are used.
ii. There is a lot of corruption in Uganda which hinders tools like selective credit control.
iii. Most banks do not follow instructions and guidelines given to them by the central

bank since they are mainly privately owned.

iv. External influence from donor and financial institutions like IMF and the World Bank.

v. There is a lot of borrowing outside the banking system therefore the effectiveness of the bank rate policy is low.

vi. High liquidity preference: Many people in the country prefer keeping their money in cash than in banks. Therefore banks have less influence over such money.

vii. Government influence: There is a lot of government interference in the operation of the central bank to print more money to help it finance its programmes.

viii. Limited capital and financial markets: These are under developed and so the government securities and shares cannot be sold and bought easily.

ix. Limited entrepreneurship in LDC's limits the utilization of credit for investment.

x. The banks are not evenly distributed in the country. They mainly concentrate in urban centres hence making the rural population unaware of the operation of these tools.

xi. Political instabilities also hinder the effectiveness of the banking systems thus limiting monetary policy.

xii. The dominance of private foreign commercial banks which are not under direct control of the central bank also hinders the policy.

xiii. The existence of large subsistence sector where people basically produce for their own consumption and have little or nothing to save with the bank.

Reference Questions:

1 (a) State the difference between a bank loan and bank overdraft.
(b) How does a current account differ from the savings account?

2 (a) Explain the difference between a cheque and a bank rate.
(b) What services are offered by commercial banks to their customers?

3 Under what conditions may a bank refuse payment against a cheque or refer a cheque to a drawer?

4 (a) What are the functions of money?
(b) Describe the qualities of good money.

5. (a) Distinguish between a bill of lading and a bill of exchange.
(b) What are the features of the bill of exchange?
(c) Under what conditions may a bill of exchange be dishonoured?

6 (a) Explain the types of banks.
(b) What problems do commercial banks experience in Uganda?
(c) What functions does the bank of Uganda perform?

7. What factors will the bank manager consider in giving a loan to the applicant?

SALES PROMOTION

It refers to an attempt made by a business enterprise to give a temporary boast to its products in order to create a high demand which increases sales.

Traders employ various forms of sales promotion activities which include the following:-

1. **Offering free gifts (premium)**

The premium is an item of value or a free gift given to a buyer of a good or service as taken of bonus e.g. offering one free opener when he buys ten creates of beer. Omo and soap for buying more litres of fuel.

2. **Offering credit facilities of worth customers**

This can also promote sales since it attracts buyers to buy more goods at ago than they would otherwise buy if they were to be sold on cash basis.

3. **Offering free samples**

A sample is an item given to the intending buyer to try out and later buy the product if she/he is impressed. This may lead to an increase in sales. (free sanitary pads are always given to girls in free samples).

4. **Price reduction**

Reducing prices of products can promote sales since more customers will be attracted by the reduced prices to buy the products. Both the new and old should be shown e.g. Bata shoes.

5. **Offering after sales services**

After sales services are free services offered by the seller to the buyer after he has bought goods and services from him. This can be in form of free transport, advise, free packing material etc. This may attract more customers and increases sales as well e.g. roofings, Lweza clays etc.

6. **Advertising**

This is the means by which information is spread by producers and sellers about the availability of their goods and services in an attempt to increase sales e.g. coca-cola advertises on radio, TVs and newspapers.

7. **Market research**

This means the act of obtaining information about the demand of the products and opinion of the customers regarding the products of the competitive firms. In view of this information, a firm can make better decisions to promote he sales of its products.

8. **Branding**

This is the act of giving trade marks and names to enable customers differentiate the products. It is used to attract/win more customers which also increases sales e.g. Garden tea.

9. **Packing**

This is the designing of attractive containers for goods being sold and also making sure that containers can be put on to other uses e.g. omo, NOMI, Kimbo etc.

10. Exhibition and trade fairs

E.g. UMA's regular shows at Lugogo and the agricultural shows in Jinja will also promote sales.

11. Sponsorship of programmes

This is done on both radio and TV e.g. MTN, Airtel, Coca-cola, Katumwa Sports Centre, Peacock paints etc.

12. Giving out brochures and manuals to customers

These will increase or promote sales of products.

13. Promotional offers

It is a system where by a firm gives a customer more units for a given amount of money e.g. an extra crate of beer for 10 crates bought, hire purchase, wide use of bill boards etc.

QUALITIES OF A GOOD SALESMAN

i. A good salesman should be able to offer credit facilities especially to his trustworthy customers.
ii. One should be honest to his customers.
iii. He should have good customer care.
iv. He should have good sales language i.e. should be polite.
v. He should offer after sales services to his customers and those who buy in bulk.
vi. He should have thorough knowledge to the products he is selling i.e. how to operate them.
vii. He should be attractive to the customers because some are attracted by the appearance.
viii. He should be able to take up the advice given by his clients/customers as far as the products are concerned.

Questions:

1 a) Distinguish between sales promotion and market research.
  b) Outline ways a firm producing a new brand of soda would make its products to be known to the public.

2 (a) With examples, explain the forms of sales promotion.
  (b) What are the qualities of a good salesman?

ADVERTISING

This refers to the means by which producers and sellers convey information to consumers regarding the availability of their goods and services in attempt to increase sales.

It is also defined as the publication of facts and opinions on goods and services available for sale in order to influence the public to purchase or buy them.

OBJECTIVES/AIMS OF ADVERTISING

i. To inform the potential consumers of new products or services.
ii. To indicate new uses of the existing product.
iii. To increase on the sales of the product.
iv. To give information on price charges, special orders etc.
v. To build the firm's image.
vi. To create more employment opportunities.
vii. To encourage more efficient use of the products e.g. an advertisement like MTN everywhere you.
viii. To create brand loyalty. Advertising creates brand loyalty so that the consumer continues to buy a firm's product in preference to other firm's products.

GENERAL FUNCTIONS OF ADVERTISING IN BUSINESS

i. It bridges the gap between the manufacturer and the consumer.
ii. It enables the consumer to know the available goods on market for proper choice making.
iii. It induces customers to buy hence increasing sales.
iv. It enables introducing of new products on sale to the consumers.
v. It encourages competition leading to better quality products and at reasonable prices.
vi. It provides necessary information about the salient features of different products e.g. size, quality, colour etc.
vii. It helps consumers to know the technical use of products and their applications.

TYPES OF ADVERTISING

a) Indirect Advertising

This is advertising to the public as a whole e.g. means of posters since it does not appeal to any specific groups of customers. It is the most effective when used for basic essential commodities like salt, sugar, soap etc which are bought by the majority of the population.

b) Direct Advertising

This is meant for certain income groups or people in certain professions. It is applicable when a product or service appeals only to a limited number of people e.g. through the press aims of selling to those who can read.

c) Informative Advertising

This simply alerts/makes the consumer aware of the existence of a commodity. It merely announces the presence of the products and gives details to the potential buyers e.g. cold soda is sold here, buy spare parts from here.

d) Persuasive Advertising

This aims at convincing the consumers that the advertised product is better than one of the similar kind/better than another e.g. "omo digests stains and dirt". MTN, the better connection etc. Persuasive/ competitive advertising aims at creating and maintaining demand and market respectively and it is commonly used by firms producing similar products.

ADVANTAGES OF ADVERTISING TO THE PRODUCER

i. Advertising expands the market for producers' goods and services by informing consumers of the existence of the products on the market inducing them to buy.
ii. It increases sales of the producer leading to mass production and more profits to the producer.
iii. It bridges the gap between producers to establish contacts with customers.
iv. It enables the producer to retain his share of the market through constantly reminding consumers of his products.
v. It encourages consumers to frequently use the products which increase sales for profits.
vi. In areas where their demand of the producer product is low, advertising may remind the consumers about the producer's product hence promoting sales.

TO THE GOVERNMENT

i. Advertising provides employment to some people which enable the government to solve the problem of unemployment.
ii. The government gets revenue through taxation of advertising firms, advertising media and all those engaged in advertising which enables it to finance its activities.

TO THE CONSUMERS

i. It creates employment among producers of similar goods which forces them to improve on the quality of goods and services which is an advantage to the consumer.
ii. Through advertising, consumers are exposed to a wider range of goods and services from which to make choice.
iii. Advertising enables consumers to know the prices of different goods and services which saves them from being overcharged by traders.
iv. It creates companionship among producers of similar goods or services which force them to reduce prices.
v. It saves the consumers form the burden of looking for the products since they are fed with the information of where to find the commodities, their appearance, size etc.
vi. Consumers get to know the commodities available on the market.
vii. Some adverts explain to consumers how best to use some goods which saves the consumers from the problems associated with the misuse of the products.

DISADVANTAGES OF ADVERTISMENT/ADVERTISING

i. Advertising is expensive and its costs are usually passed onto the consumers in form of high prices.
ii. Persuasive advertising may force consumers to buy goods or services which they do not really need.
iii. Some adverts are misleading and end up driving consumers to buy poor quality goods.

iv. Advertising interferes with the free choice of goods or services to the consumers especially persuasive advertisements.
v. It may sometimes force consumers to live beyond their means because at times consumers are forced to borrow money and buy what they cannot afford under the influence of advertising.
vi. It outcompetes some industries which lead to the rise of monopolies which have a tendency of overcharging the consumers and offering poor quality goods and services.
vii. Some advertisements promote immorality such as adverts for condoms, cigarettes, videos, lockers etc witch doctors, child abuse like kidnapping.

ADVERTISING MEDIA

This refers to the various ways or means/channels through which advertising information is conveyed to the public. They include the following:- Newspaper, magazines, TVs, radios, trade fairs and exhibitions etc.

Newspapers:

This is one of the most important medium in E. Africa (Uganda) firms and sellers advertise their products and services through daily English newspaper like New vision, monitor, Bukedde.

The national newspaper circulates throughout the country and they are therefore suitable for advertisements addressed to the general public.

ADVANTAGES OF ADVERTISING USING NEWSPAPER

i. Newspapers are cheap: Many people can afford buying them which enables the message to reach many people.
ii. Adverts made in newspaper can stay for a long time so that it cannot easily be forgotten. Any time a person reads a newspaper, the message will be received.
iii. Newspapers can be found in different languages which favour those who can read and write the language used e.g. English, Luganda, Swahili, Langi etc.
iv. Newspapers have got a wide coverage i.e. can be sent to distant places within the country and beyond.
v. They favour both the deaf and the dumb who cannot read and write since it involves seeing and writing only.
vi. They promote sports activities in the country since most of them give sports details to the teachers.

DISADVANTAGES

i. It is very expensive to buy them everyday.
ii. They do not favour the blind who may also need the information contained in them.
iii. They do not favour the illiterates since they involve reading and writing.
iv. Some newspapers do not reach all parts of the country while others reach very late and when some information has already passed.
v. It is expensive to advertise through newspapers and therefore small firms are not favoured which makes their commodities less known to the public.
vi. Newspapers can easily be destroyed by water, fire, rain and can easily be harmed

in case of mishandling.

vii. Newspapers sometimes lead to moral decay especially those which display rude pictures e.g. red pepper.

RADIOS

This is where advertisements are broadcasted from the radio station.

Advantages

i. It covers a wide area and therefore information reaches very many people.
ii. It favours both the illiterates and literates since it involves only listening.
iii. Adverts can be conveyed in different languages.
iv. It caters for the blind since it does not involve seeing.
v. It is fast since messages are received as soon as they are sent.
vi. Once an error is made, it can be corrected unlike written messages

Disadvantages

i. Only people with radios can receive the information.
ii. It leaves on record for future reference since radios do not share information.
iii. It is expensive to advertise using radios; the adverts need to be repeated over and over.
iv. Languages used to advertise over the radio are limited because of the limited time.
v. Radio advertisements need to be over exaggerated since a lot of persuasive words are used which may encourage buyers to buy poor quality goods.
vi. Many people with radios may not listen to the advertisement especially the youth who prefer music and sports.

TELEVISION

This is where advertising information is brought to the notice of viewers and listeners within a short time.

Advantages

i. It favours both the literates and illiterates since it does not require writing and reading but seeing and listening.
ii. It is fast. The time taken is short and messages are required effectively.
iii. It covers a relatively wide area and hence the message reaches a big number of people.

Disadvantages

i. It can only favours people with T.V sets yet very few people can afford to buy TV sets. Therefore many people do not receive the message.
ii. The costs of advertising on TVs are too high to be afforded by many businessmen.
iii. It does not leave any record for future reference so information is easily forgotten.
iv. It does not favour the blind since it involves seeing.
v. Information is not always detailed compared to that in newspaper because of the cost involved.

vi. T.V transmission is limited to a particular geographical distance therefore some people especially in areas which are not reached do not get the information.
vii. Exaggerations hence enjoying poor quality goods sometimes e.g. omo.

MAGAZINES

Advantages

i. Magazines are widely circulated both domestically and internationally so the message is received by many people.
ii. They are published in many languages both local and foreign making it easily for the message to be understood by many.
iii. The use of colours is possible which makes the adverts attractive to read.
iv. It leaves record for future reference i.e advert made can be stored for quite a long time.

Disadvantages

i. Adverts made in magazines tend to be expensive compared to newspapers.
ii. They are mostly written in foreign languages neglecting the local language.
iii. Some adverts tend to be more persuasive than informative.
iv. Some magazines carry immoral pictures which may be a problem especially to the young children.

OUTDOOR

This involves all adverts displayed outside shops, stadium and on streets. They include posters, sign post, banners etc.

POSTERS

This refers to all paper advertisements hanging up or displayed. They are attractively designed which encourages people to read them. Posters have a wide coverage but they are usually affected by rainfall and wind.

SIGN POSTS

These are designed on wooden or metallic material and are displayed in strategic places alongside roads. Sign posts are permanently natured and are affected by weather e.g. school, sign posts, witch doctors etc.

BANNERS

These are in form of a cloth bearing the message being advertised.

NEON SIGNS

These are normally hanged outside shops and are lighted at night so that the message can be read both during day and night.

They are advantageous because information can reach many people since they are displayed in strategic points.

Disadvantages

i. They are not suitable for illiterate people since they involve reading.

ii. Installing and maintaining neon sign is expensive.
iii. They do not favour blind since they involve seeing.

TRADE FAIRS AND EXHIBITIONS
Trade fairs is a media advertising whose manufactures and businessmen deal in various products display their products from well designed stocks to show grounds to make them known to the public e.g. UMA (Uganda Manufacturers Association).

Trade exhibition refers to an occasion whereby one or more producers of related produced display their products a t a show ground on well designed stocks at a show ground to make them known to the public e.g. Uganda National Farmers' Association Annual Agricultural show in Jinja.

Advantages
i. It is effective especially with advertising new products on the market since it attracts many potential customers from outside and within the country.
ii. Manufacturers are able to interact face to face with potential customers which enable them to find out the customer's opinion about their goods.
iii. Manufacturers can interact with one another to trade fairs and may be able to improve on the quality of their products to match those of other competitive firms.
iv. Businessmen and manufacturers can get agents since trade fairs attract many buyers both domestically and internationally.
v. It boosts the sales of businessmen since during trade fairs many customers take advantages of price reduction to buy in bulk.

Disadvantages
i. Trade fairs are limited to few areas.
ii. They are in most cases temporary.
iii. They are expensive to organize
iv. They do not favour the blind.

WINDOW DISPLAY
This is the placing of goods in glass windows of shops, well arranged in such a way that they attract people who stop, look and admire. This practice is known as window shopping.

Advantages
i. Goods can be seen clearly attracting people to buy them.
ii. It is available to all passersby at free charge.
iii. Goods can be arranged at a low cost.

Disadvantages
i. Window glasses are very expensive.
ii. Once glasses break, they can cause injuries

iii. It does not favour the blind.

SPECIALITY ADVERTISING

This involves producers or business firms offering specific articles to customers with their trademarks, trade names and symbols. Such articles may include T-shirts, openers, containers, pens, cigarettes etc.

TRANSPORT ADVERTISING

This is where a firm advertises their products in moving vehicle e.g. local musicians. It is also direct mail advertising which involves suppliers and producers sending catalogues to potential customers advertising their goods through the post office.

This in most cases takes place in reply to the letters of inquiry.

FACTORS AFFECTING THE CHOICE OF AN ADVERTISING MEDIA

i. Cost of the media: Manufacturers or traders should consider the cost of the media in relation to the value of the commodity to be advertised. More expensive goods like cars, machinery etc can be advertised through more expensive media like televisions while cheap products advertised mainly through less expensive media like radio, posters etc.
ii. The age group to which the media appeals its goods to be advertised mainly for teenagers than media such as magazines, T-shirts etc which supply to teenagers should be used.
iii. The geographical area covered by the media. If the producers want to introduce a product aimed at the local market, then the media such as posters and other local appeal media may be used. However if the product to be advertised is intended for the whole country, then media with national wide appeal such as radio, televisions and newspaper may be used.
iv. The common group to which the media appeals with advertising a commodity which is mostly demanded by the rich people, one can use television or magazines. On the other hand when advertising commodities demanded by common people, sign posts and posters and local newspapers can serve best.
v. Social class: If goods are mainly demanded by local people, radio and local newspaper can work, televisions and magazines can work better for commodities demanded in urban centres. Radios and televisions are good for literates and illiterate society. If the advertising is intended to cover many people, the manufacture and traders may prefer using radios, newspapers, magazines and televisions

INSURANCE

This is the protection against events which may or may not take place e.g. fire, theft, accidents. It is an aid to trade whereby individuals or organizations subjected to certain receipts contribute money (premiums) to a common pool from which who suffer financial losses from the stated risks can be compensated.

The protection against events which will definitely occur is what is termed as assurance e.g. death, old age etc.

Examples of insurance companies include:

i. East African General Insurance National Company (EAGIN)
ii. National Insurance Corporation (NIC)
iii. Pan World Insurance Company (PAWIC)
iv. United Assurance Company (UAC)
v. Excel Insurance Company (EIC)
vi. State World Insurance Company (SWICO)

TERMS USED IN INSURANCE

1. **Premium**

This refers to the amount of money paid by a person or organization towards an insurance produce. Premium make up a pool from which compensation is made to those who suffer losses.

2. **Insurer**

This refers to the insurance company offering the insurance policy. It is also called Assurer or underwriter.

3. **Insured**

This refers to the person or organization which takes up an insurance policy.

4. **Risk**

This refers to the event against which insurance is taken up with the insurer e.g. risks include fire, accidents etc.

5. **Loss**

This is the occurrence of the lost events against which insurance is taken out. If the entire property insured is destroyed, the loss is said to be a **total loss** and if only part of the property insured is destroyed, the loss is said to be a **partial loss**.

6. **Surrender value**

This refers to the amount of money given back to the insured person or organization when he or she decides to cancel the insurance agreement before the period specified.

7. **Co-insurance**

This is where an item is insured against similar risk to the number of insurance companies. The insurance companies are called co-insurers. It should be noted that co-insurance is of no value to the insured since in case of a loss of them will contribute only the amount for the loss just as it would have been with one insurance company.

8. Re-insurance

This is when an insurance company insures a risk with insurance. This normally happens when the property is too expensive to be handled by the first insurance company or when the original insurance company does not offer that particular insurance product.

9. No – claim bonus

This is the discount given to the insured in form of reduced premium when it makes no claims from its policy. Careful drivers who avoid accidents benefit from this.

10. Sum insured

This refers to the exact value of the items insured which the insurance company undertakes to pay inform of compensation in case of a loss.

11. Insurance policy

This is a document that acts as an evidence of a contract between the insured and the insurance company giving all details and commissions of a contract.

12. Proposal form

This is the document given by the insurance company to a person or organization intending to take up insurance where all the relevant material acts are filled concerning the property to be insured i.e. it is an application to the insurance company.

13. Cover note

It is a document given by the insurance company to the prospective insured or payment and the first premium as the policy is being prepared. It indicates the amount of money paid to the insurer by the prospective insured and a grace period of 30 days is given within which the policy is prepared.

14. Actuary

This is a person who calculates the premium to be paid by a person or organization intending to take up insurance basing on the first statistics.

15. Assessor

This is a specialist in insurance who determines the amount of goods. His work is to quantify the magnitudes of a loss and to help with advises during the time of compensation.

16. Over insurance

This is when the insured overvalues his property at the time of taking up the insurance policy. However should the insurance company discover such a lie, the policy may be canceled and the already paid premium may not be refunded.

17. Under insurance

This is when the insured under values his property at the time of taking up the insurance policy. The insured is paid only the sum insured which is less than the actual value of the property.

18. **Pooling of risks**

This is where people or organizations exposed to the risk pay small amounts to insurance from where a few suffering from losses arising from such risks are compensated.

19. **Insurance broker**

This is a middleman who connects people or organization in need of insurance cover to the insurance companies. They do not handle the policy themselves but simply connect prospective insured to the insurers.

20. **Insurance underwriters**

These are individuals who work on their own account to offer insurance cases to the prospective customers in need of them.

21. **An insurance market**

It is a medium through which an insured and insurer are brought into contact.

PRINCIPLES OF INSURANCE

These are the regulations that govern insurance business. They are basically 5 and they include:-

1. **Indemnity**

This principle states that compensation has to be made to those who suffer losses but one should not make profits from his policy. The aim of the insurance company is to compensate the insured from what is lost but not to put him in financial position, therefore the insured is not allowed to make a gain out of the compensation.

2. **Utmost good faith**

This is a principle of insurance which requires the person or organization intending to take up insurance to disclose all the relevant material facts concerning the items to be insured.

Should any information be hidden regarding the item, the policy may be canceled and the already paid premium may not be refunded.

3. **Subrogation**

This principle states that after compensation, the remains of the destroyed property should not be left to the insured but must go to the insurance company. This is because the insured may sell off the remains hence making profits from his policy which is against the principle of indemnity.

4. **Proximate cause**

This principle states that before compensation is made, the cause of the loss must be close to the actual risk insured against. According to this principle therefore it one's car s insured against accidents and then it is destroyed since there is no relationship between fire and accidents.

5. **Insurance interests**

This principle states that one must insure an insure an item in which he has interest such that when a loss occurs to property, he or she is bound to suffer e.g. one cannot insure his friend's car or neighbour's house according to their principle.

STEPS TAKEN (PROCEDURE) IN OPENING AN INSURANCE

i. Selecting an insurance company to insure with. It must be financially stable.
ii. The person willing to take an insurance against a particular risk must fill in a proposal form. A proposal form is a questionnaire consisting of questions which are answered by the intending insured and who should take great care when filling the form. All the material facts about the property to be insured must be disclosed and the insurance company or its agent calculates the premium.
iii. The insured pays the first premium and is issued with a document called a cover note, (Acts as an evidence of payment of a premium). After 30 days, the insurance company gives the insured a policy. This is the main document of insurance which contains the conditions of insurance.
iv. It is an agreement between the insured and insurer and in the agreements the insured agrees to pay a premium to the insurer and the insurer in turn promises compensation to the insured in an event of loss.
v. If the loss occurs, the insured must notify the insurer immediately and fill a document called **claim form**. He must give full details of the loss and no lies should be told.
vi. Valuing of the loss takes place where the assessor values the extent of the loss and the amount to be paid as compensation. Compensation is done when the insurer is satisfied with the assessor's work and he claim made.

TYPES OF INSURANCE

There are two major categories of insurance i.e. life insurance and general insurance or insurance of property.

1. LIFE INSURANCE

It is referred to as life insurance. This covers insurance of human life. A person can enter a contract with an insurance company to guard or give protection to life he has got as insurable interest e.g. his own life, a debtor's life, a business partner's life etc. policies which are available under life insurance include:-

(i) **Whole life policies**

This is a life assurance policy aimed at assisting the family of the insured when he dies. Premiums under this policy are paid throughout the life of the insured or specified period. Therefore the policy is meant to provide financial assistance to beneficiaries after the death of the insured.

(ii) **Endowment policy**

This is a life insurance policy aimed at benefiting the insured after he has retired from the job or during his old age.

Premiums under this policy are paid for a specified period of time. Claims are made at the expiry of such a period or at death which proves to be earlier. These life policies are normally taken by individuals.

(iii) **Group life insurance policy**
This is a life assurance policy under which families or businesses take up insurance to provide them persons during old age.

(iv) **Sickness policy**
This is a life assurance policy taken up to cover the insured against a specified disease or all forms of curable diseases. Under this policy, the insurer pays the medical bills of the insured and other expenses involved depending on contract.

2. GENERAL INSURANCE (INSURANCE OR PROPERTY)
There are three branches of general insurance namely:-
(i) Fire insurance
(ii) Accident insurance
(iii) Marine insurance

(i) FIRE INSURANCE
This covers property against damage and destruction by fire or loss through household breaking. It is sometimes referred to as fire and theft insurance. Fire insurance has policies like:-
a) **Fire policy**
This is a policy aimed at protecting property against fire outbreaks.

b) **Household risk policy**
This is a policy that covers household property against damages or loss especially house hold furniture and kitchen utensils.
c) **Burglary (theft policy)**
This is a policy that covers against forced out breaking of burglars. This policy is normally taken up by businessmen, banks and landlords.

d) **Fidelity guarantee**
This policy covers against losses arising from the dishonest of particular employees or the entire working staff. This policy is necessary especially for cashiers, accountants and banking officers who handle large sums of business money.

e) **Cash in transit policy**
This policy safeguards money losses while going to or leaving the business firm.

f) **Cash in safe overnight**
This policy covers against loss of money which has been kept in office overnight. It is necessary for businesses which receive large sums of money after banks have closed e.g. night clubs, bars etc.

g) **Bad debts policy**
This policy protects the insured against losses arising from debtors failing to pay the firm.

(ii) ACCIDENT INSURANCE

This protects the property against damage or loss arising from accidents. This insurance has got a number of policies which include:-

a) **Motor vehicle insurance policy**

This policy insures vehicles or motor cycles against damage or loss resulting from crashing or over turning.

b) **Comprehensive policy**

This covers the vehicle, its occupant and any other person who might be affected by the accident.

c) **Third party policy**

This policy covers against damages or losses caused by the vehicle to the people either travelling in that vehicle or knocked down by the vehicle e.g. pedestrians.

Note:

There are three parties involved in motor vehicle insurance:-

- The 1st party is the owner of the vehicle
- The 2nd party is the insurer.
- The 3rd party are the passengers travelling in the vehicle.

The third party policy therefore covers passengers travelling in the vehicle and the people injured or property destroyed as a result of accident.

By law, all vehicles in Uganda are required to take up the third party policy.

d) **Aviation insurance policy**

This policy safeguards against large damages or life losses resulting from air craft clashes. It is usually taken up by airline companies.

e) **Personal accident policy**

This is a policy taken up by individuals to cover against any accident which may affect them especially due to vehicles.

f) **Employer's liability policy**

This policy is taken up by employers to cover their employees or customers against any injury that may occur to them while at work during working hours.

g) **Public liability policy**

This policy covers against any injury which may occur to a person who is passing near the property of the injured. This policy is normally taken up by building construction companies.

ROLE OF INSURANCE IN DEVELOPMENT OF A COUNTRY

i. Businessmen can use insurance policies as security for loans.

ii. Insurance companies act as trustees for the businessmen.
iii. Promote trade.
iv. Compensation in case of sickness or loss of life leads to reduction f costs.
v. A larger party of the funds collected are used to set up real estates and re-investments in development projects e.g. factories, buildings etc.
vi. It enhances the habit of saving among people especially in life insurance.
vii. Insurance contributes to a country's invisible exports hence earning foreign exchange.
viii. Employment opportunities.
ix. Provide revenue to the government through payment of taxes.
x. Compensation in cases of sickness or loss of life leads to reduction of social costs to the government.

Disadvantages of insurance

i. It does not cover all risks.
ii. The doctrine of insurable interest limits the scope of items to be insured.
iii. The compensation is not obtained immediately.
iv. The legal principles of insurance are confusing e.g. proximate cause.

Problems facing insurance industry

i. Many people are not well sensitized about insurance business.
ii. Loss of confidence in insurance because of reluctance to compensate in case of loss.
iii. High rates of inflation
iv. Limited market for insurance policies due to widespread poverty.
v. Insufficient capital by the insurance company.
vi. Getting an insurance policy has many complications with confusing policies.
vii. Benefits as the insurance are invisible.

Similarities between gambling and insurance

i. Both have participants contributing money to a common pool.
ii. Both are based on the element of probability or chance.
iii. In both, membership or entry is voluntary and out of free consent.
iv. In both, at least two parties are involved.

Differences between gambling and insurance

BUSINESS CALCULATIONS

A business is an activity carried out with the aim of making profits while standing a risk of making losses.

Every business person must keep records of the day to day transactions. These records are kept for the following reasons:-

i. To enable the owner of the business to know whether he is making profits or losses.
ii. To enable the owner of the business to establish the amount of stock existing in the business.
iii. To enable the owner know the debtors and creditors of the business.
iv. The records enable the government to determine the amount of tax to be paid by the business.
v. To enable potential investors to access the performance of the business so as to decide whether they should do the same business or not.
vi. It helps business persons to determine the amount at which to sell off their businesses.

COMMON TERMS USED IN BUSINESS CALCULATIONS

1. Opening Stock

This refers to items or goods which a business starts with at the beginning of its operations. For a starting business, open stock consists of the goods bought from producers and wholesalers.

However for a business that has operated for at least one year, its opening stock is a combination of what has been bought at the beginning of the new year and remain unsold at eh end of the previous trading period.

2. Closing stock

It refers to goods that remain unsold at the end of the trading period.

3. Stock taking

It is the act of making a list of goods possessed by the business. During the period of stock taking, trading activities are stocked and each item is physically counted and recorded on the stock sheet.

4. Stock valuation

This is the act of calculating the values of all goods held in the business. After stock taking, a stock sheet is handled over to the accounts department for stock valuation.

Stock can be valued at cost price i.e. the price at which goods were bought or at selling price i.e. the price at which the business intends to sell the goods.

5. Purchases

This refers to goods or items bought for sale in the business during the year. The business will continue to buy more goods for sale throughout the trading period/year. At the end of the trading period, these goods are valued at their cost price to get purchases for the year.

6. Carriage Inwards

This refers to transport charges for the goods purchased. Carriage inwards are part of the cost of buying goods and therefore it is added on the value of purchases.

7. Carriage Outwards

This refers to the transport charges for the goods sold. These are charges for goods leaving the business to its customer. It is treated as a business expense.

8. Net purchases

Sometimes some of the goods that are bought by the business for sale may be returned to the suppliers. This may be on the grounds that some of these goods are damaged, poor quality, expired etc. The value of these goods that are returned to the suppliers is subtracted from the value of purchases of the year to get net purchases.

Net purchases = purchases - returns outwards (purchases returned)

9. Returns inwards (Sales returns)

This refers to goods sold to customers but they are returned to the business. This may be due to damages, expiry etc. Returns inwards are also referred to as sales returns.

Net sales = sales - sales returns (returns inwards)

10. Returns outwards

These are goods purchased by the business for sale but later returned to the supplier before selling them.

Net purchase =purchases – purchase returns (return outward)

ds) 11. Average stock

This refers to the average of opening stock and closing stock

$$\textit{Average stock} = \frac{\text{opening stock} + \text{closing stock}}{2}$$

12. Turn over (sales)

This refers to the total sales of the business. It means the total value of goods sold from the beginning up to the end of the trading period.

Turn over = cost of sales + gross profit

13. Cost of sales/Cost of goods sold

This refers to the value at which the goods were purchased.

14. Expenses

This refers to the cost in money terms incurred to run the business on day to day basis. These include wages, salaries, rent, rates, transport expenses, electricity, telephone, stationery etc.

15. Gross Profit

This is the difference between money got from the sales (turnover) and the total cost of sales. It is the difference between the sales revenue and the cost of the goods sold.

Gross profit = sales (turn over) – cost of sales.
NOTE: Expenses are not deducted when calculating gross profit

16. **Net profit**

This is the final profit after all expenses of charges have been deducted from the gross profit and after all other incomes have been added.

Net profit = gross profit - expenses

$$\textit{Net profit as percentage} = \frac{\text{Net profit}}{\text{turn over}} \times 100$$

17. **Rate of Turn over**

This refers to the number of times the stock has to be sold and replaced in order to make up total sales during the trading period. (It measures the speed at which the stock is cleared in a given year).

$$\textit{Rate of Turnover} = \frac{\text{cost of sales}}{\text{Average stock (at cost}}$$

18. Mark up (Gross profit mark-up)

It is the gross profit expressed as a percentage of cost of sales (cost price).

$$\textit{Mark-up} = \frac{\text{Gross profit}}{\text{cost of sales (cost price)}} \times 100$$

19. **Margin (Gross profit margin**

It is the gross profit expressed as a percentage of the sales.

$$\textit{Margin} = \frac{\text{Gross profit}}{\text{sales (turnover)}} \times 100$$

SUMMARY OF THE FORMULAE

$$\text{Average stock} = \frac{\text{opening stock + closing stock}}{2}$$

Purchases	=	Net purchases + purchases returns
Cost of sales	=	opening stock + net purchases - closing stock
Gross profit	=	sales - cost of sales
Net profit	=	gross profit - expenses
Sales	=	cost of sales + gross profit
Net sales	=	sales – sales of return (return inwards)
Rate of turnover	=	$\frac{\text{cost of sales}}{\text{Average stock}}$

$$\text{Mark up (Gross profit)} = \frac{\text{gross profit}}{\text{cost of sales}} \times 100$$

$$\text{Margin (gross profit margin)} = \frac{\text{Gross profit}}{\text{sales}} \times 100$$

Given the following information from John's books of accounts

Stock (1 -1 – 2000)	200,000/=
Purchases	700,000/=
Sales	950,000/=
Purchases return	50,000/=
Sales return	40,000/=
Expenses	50,000/=
Stock (31-12-2000)	200,000/=

Calculate

a) Average stock
b) Net purchases
c) Cost of sales
d) Net sales
e) Gross profit
f) Net profit
g) Rate of turnover
h) Markup

a) Average stock

$$= \frac{\text{opening stock + closing stock}}{2}$$

$$= \frac{200,000 + 200,000}{2}$$

$$= 200,000/=$$

b) Net purchases = Purchases - Purchases returns
= 700,000 - 50,000
= 650,000

c) Cost of sales = Opening stock + Net purchases - closing stock
= 200,000 + 650,000 – 200,000
= shs. 650,000

d) Net sales = Sales - sales of return (return inwards)
= 950,000 - 40,000
= shs. 910,000

e) Gross profit = sales (net sales) - cost of sales

$$= 910{,}000 - 650{,}000$$
$$= \text{shs. } 260{,}000$$

f) Net profit = Gross profit - expenses
= 260,000 - 60,000
= shs. 200,000

g) Rate of turn over $= \dfrac{\text{cost of sales}}{\text{Average stock}}$

$$= \frac{650{,}000}{200{,}000}$$

= 3.25 times

h) Mark – up $= \dfrac{\text{gross profit}}{\text{cost of sales}} \times 100$

$$= \frac{260{,}000}{650{,}000} \times 100$$

= 40%

Given
Opening stock = shs. 12,000
Closing stock = shs. 15,000
Net purchase = shs. 82,000
Net sales = shs. 82,000

Calculate
a) Average stock
b) Cost of sales
c) Gross profit
d) Rate of turnover

a) Average stock $= \dfrac{\text{opening stock} + \text{closing stock}}{2}$

$$= \frac{12{,}000 + 15{,}000}{2}$$

= 13,500/=

b) Cost of sales = opening stock + net purchases - closing stock
= 12,000 + 82,000 - 15,000
= 79,000/=

c) Gross profit = Net sales – cost of sales

$= 82,000 - 79,000$
$= 3,000/=$

d) Rate of turn over $= \frac{\text{cost of sales}}{\text{Average stock}}$

$= \frac{79,000}{13,500} = 5.85$ times

BALANCE SHEET
This is a statement that shows the financial stand of a business at a given date/time.

It shows assets, liabilities and capital at a given date.

Balance sheet equation:
Assets = liabilities + capital

COMMON TERMS USED
1. Assets
These are items/goods owned by the business. They are divided into two:-

(i) *Fixed Assets*
These are items that stay in the business for long. They are assets bought for use and not for sale. They include land, buildings, machinery, vehicles, furniture etc.
Fixed Assets = Total assets - currents assets

(ii) *Current Assets*
These are items/goods that stay in the business for a short time. They are always in continuous circulation. They include: the stock of goods, debtors , cash at hand, cash at bank etc
Current Assets = Total assets - fixed assets

2. Liabilities
This refers to money borrowed from outside used in the business and has to be paid back. Liabilities are also categorized into long term liabilities and current liabilities.

(i) *Current liabilities*
These refer to liabilities of debts that are payable in a short periods of time usually less than a year. E.g. creditors, bank overdrafts, wages, short term loans like of 3 months.

(ii) *Long term liabilities*
These are liabilities or debts payable after a long period of time e.g. loans of 1year, 3 years etc.

3. Capital
This refers to the total resources contributed by the owners/owner at the start of the business. It is the claims by the owners against the business.

Therefore
Capital = Assets - liabilities

Capital is classified into:- borrowed capital, capital owned, capital employed, working capital, circulating capital and fixed capital.

(i) *Working Capital*
It is the capital needed for the daily running of the business e.g. for purchase of stock, paying wages and any other transactions.
Working capital = current assets - current liabilities
(It is the excess of current assets over current liabilities)

(ii) *Capital employed*
This is the total of all assets used in the business both fixed and current assets.
Capital employed = fixed assets + current assets

(iii) Capital owned
The amount of money the business owes to its owners. It is the net worth of the business.
Capital owned = total assets - total liabilities
Note:
Total assets = fixed assets + current assets
Total liabilities = long –term liabilities + current liabilities

(iv) Borrowed capital
This is the money borrowed by the owner of a business from other people to be used in the business e.g. bank loans, overdrafts etc.

(v) Circulating/liquid/floating capital
This refers to capital tied up in current assets.
Circulating capital = total assets - fixed assets
Therefore circulating capital = current assets

(vi) Fixed capital
This is capital tied up in fixed assets. It is the same as fixed assets.

4. Solvency
This is a situation where the business has more assets than the liabilities.

5. Insolvency
This is a situation where a business has more liabilities than its assets. It means that even if the business sells off all its assets, it cannot pay off all its debts.

6. Bankruptcy
This is when a business is not in position to pay off its debts.

7. Drawings:
It refers to the goods of cash withdrawn by the business from the owner for its uses.

This shows what the owner of the business owes the business.

SUMMARY OF THE FORMULAE USED IN BALANCE SHEET

1. Working capital = current assets - current liabilities
   Current assets = working capital + current liabilities
   Current liabilities = current assets - working capital

2. Capital employed = fixed assets + current assets
   Fixed assets = capital employed - current assets
   Current assets = capital employed - fixed assets

3. Capital owned = total assets - total liabilities
   Total assets = capital owned + total liabilities
   Total liabilities = total assets - capital owned

4. Borrowed capital = liabilities

5. Circulating capital = current assets

6. Fixed capital = fixed assets

Example
Mukasa had the following assets and liabilities as on 31-12-2009

Land	6,000/=
Buildings	4,000/=
Machinery	20,000/=
Capital	53,000/=
Stock	30,000/=
Creditors	5,000/=
Loan of 2 years	10,000/=
Cash at bank	4,000/=
Debtors	2,500/=
Cash at hand	2,000/=

a) Prepare Mukasa's balance sheet

MUKASA'S BALANCE SHEET AS AT 31-12-2009

Capital	53,500	**Assets**	
Long term liabilities		***Fixed assets***	
Loan for 2 years	10,000	Land	6,000
Current liabilities		Building	4,000
Creditors	5,000	Machinery	20,000
		Current assets	
		Stock	20,000
		Cash at bank	4,000
		Debtors	2,500
		Cash at hand	2,000

68,500/=	68,500

Using the balance sheet to calculate

(i) Capital owned = total assets – total liabilities
(ii) Capital employed = fixed assets + current assets
(iii) Borrowed capital = long term liabilities
(iv) Working capital = current assets – current liabilities
(v) Circulating capital = current liabilities
(vi) Fixed capital = fixed assets

Capital owned = total assets - total liabilities
68500 - 15,000
= 53,500/=

Capital employed = fixed assets + current assets

STOCK EXCHANGE MARKET

This is an organized capital market where buyers and sellers of securities (shares, bonds, stocks etc) represented by licensed brokers/dealers meet to acquire or dispose of securities.

It is a market where already issued shares and stocks are bought and sold.

Securities

A security is term given to any document which gives its holders a right to money or other property not actually in his possession e.g. share certificates, bills of exchange, loan stocks, bonds and debentures.

Uganda Securities Exchange (U.S.E)

This is a secondary market where already issued securities are bought and sold through licensed stock brokers.

The licensed brokers/members of Uganda securities exchange are:

i. Baroda Capital Market (U) Ltd
ii. Crane Financial Services Ltd
iii. Equity Stock brokers (U) Ltd
iv. G.A. Onegi Obel and Co. Ltd
v. MBEA brokerage Service (U Ltd
vi. Dyer and Blair (U) Ltd
vii. Africa Alliance Uganda Limited

TYPES OF SECURITIES TRADED ON THE STOCK EXCHANGE MARKET

1. **Blue chips**

These are shares in companies which have a high and sound reputation from the historical perspective. Holders of blue chips are normally assured of their repayment of dividends.

2. **Gift edged securities**

These are securities sold by the government to raise money. They are very safe in that they carry a fixed rate of interest payable on due dates and re redeemable.

3. **Bonds**

These are long term fixed interest securities issued by the central government, national corporations and parastatals to raise money in case of financial difficulties.

4. **Treasury bills**

These are short term high liquid financial instruments issued regularly by the government to raise money for short term obligations.

5. **Bearer securities**

These are securities that can be transferred by endorsement rather than using registers and transfer forms e.g. cheques, bills of exchange, promissory note.

6. **Portfolio securities**

This is a collection of various securities held by an individual investor or institution in a number of firms or companies with the aim of diversifying sources of profits and reducing the risks of losses.

AGENTS OF STOCK EXCHANGE (STOCK EXCHANGE MEMBERSHIP)

The business is carried out by specialized agents who are legally registered by the stock exchange council called brokers and jobbers.

Stock brokers

A stock broker is a licensed professional authorized to buy and sell shares on behalf of others. (his clients). A person wishing to buy shares approaches the broker who then looks for a person willing to sell the type of shares his client is interested in buying.

Stock jobbers.

These are principals who buy and sell shares on their own behalf. They buy shares and stocks in large quantities for the purpose of trading in these shares and stocks. Usually the jobber makes a profit known as the jobbers turn.

Types of Jobbers

a) **A bear**

This is a stock exchange jargon used to denote a jobber who sells stocks and shares on the market when the prices are high with anticipation that the prices will soon drop (fall) for him to buy them back at a lower price thus making a profit.

b) A bull

This is stock exchange jargon used to denote a jobber who buys shares on the market with anticipation that the price will raise sufficiently for him to be able to sell them at a profit in the future.

c) A stag

This is a stock exchange jobber who specifically deals in new shares. A stag is contacted by companies to sell and issue new shares.

TERMS USED IN STOCK EXCHANGE

1. Par Value of Shares

This is the face value or nominal value of a share. When all the par value of shares are added, we get the share capital of a company.

2. Market Value Shares

This is the price at which a share is selling on the stock exchange. If a company has good reputation, its shares are likely to be sold at a higher value than the face value. The market value of a share may either be below or above the nominal value.

3. Dividends

A dividend is the amount paid out of profits by a company to the shareholders.

4. Bonus shares/scrip issue

These are shares issued usually free of charge by a company to its existing shareholders out of accumulated reserves so as to increase the capital and allow them to earn higher dividends in the future.

It is actually the distribution of profits in form of shares and this act is called capitalization of reserves.

5. Right issue

This is when an already established company gives existing shareholders priority to buy shares out of the new issue.

This method encourages existing share holders to invest more because they are given preferential treatment and usually buy the new issues at a lower price than the other applicants.

6. Public offering

This is when a company issues a prospectus advertising for the sale of shares to the general public. Public limited companies use this method to raise capital.

7. Quoted/listed companies

A quoted or listed company is one whose shares are bought and sold on a stock exchange.

Only public limited companies can be quoted at the stock exchange because their shares are freely transferrable.

8. Unquoted companies

An unquoted company is one whose shares are not traded on stock exchange.

All private companies are unquoted companies.

9. Tar go public

This is an act of converting a private company into a public company thereby enabling it to obtain a stock exchange quotation and sell shares to the general public.

10. Issuing House

This is a bank that specialized in launching new issues of shares.

11. Underwriter

This is an institution or a person who buys any shares of a company that may not be taken up by the public during the launching of new issue of shares by a company.

SELLING PRICE OF SHARES

Shares may be bought and sold at the following prices.

1. Cum - div

This stands for “with dividend”. It means that the shares have been sold along with rights of the new shareholder to receive dividend that has been already declared.

2. Ex – div

This stands for “Without dividend”. It means that the seller retains the right to receive already declared dividend when it is paid by the company.

3. Cum rights

This means that the shares have been sold with the rights to the new shareholder to buy shares out of the new rights issue.

4. Ex – rights

This means that the seller of the shares retains the right to buy shares out of the new rights issue.

5. Cum – cap

This stands for cum capital. It means that the shares have been sold along with the right to the new shareholder to receive the bonus shares. i.e. the buyer gets free bonus shares in addition to the ones he is now buying.

6. Ex – cap

This stands for ex- capital. It means that the seller of shares retains the right to the free bonus shares. The buyer only gets the shares he is now buying.

STEPS IN PURCHASE OF SHARES

An investor who wishes in stocks and shares can buy them through a broker.

The following steps are followed:-

i. The investor approaches the buying broker.
ii. The buying broker makes inquiries for the type of shares that the investor wishes to buy.
iii. The buying broker informs the investor of the deal being processed. If the buying broker concurs with the investor he proceeds and seals the deal.
iv. The buying broker prepares a contract note and sends it to his client (investor). The contract note contains price of shares, commission rate of the broker, registration fees, stamp duty and transfer duty.
v. The selling broker on the other hand prepares a stock transfer from which is signed by the seller for whom he is acting.
vi. The selling broker passes the stock transfer form and share certificate to the buying broker.
vii. The investor/buyer pays the buying broker.
viii. The buying broker pays the selling broker.
ix. The selling broker deducts his commission and tax on capital gain on the sale of shares and pays the balance to the seller.

PROBLEMS FACING THE STOCK EXCHANGE/SECURITIES EXCHANGE IN UGANDA

i. Limited liquidity in the country due to poverty which limits savings and investment in securities.
ii. Lack of country wide education on capital markets. Majority of people have not been sensitized about the importance of stock exchange and the need to invest in securities.
iii. Limited awareness of who the brokers are hence difficulty to place orders through the stock brokers.
iv. Lack of confidence among the public to incest their savings with some companies in form of shares due to fear of incompetent and corrupt managers.
v. Slow growth in the securities exchange market. There are few public companies in the country and very few have been listed so far.
vi. Political instability in the country and poor economic performance of the country scares away investors.
vii. Low interest rates offered on securities. They discourage people to buy securities. They instead prefer to invest in real assets like land, buildings, cattle etc.

STUDY QUESTIONS (MULTIPLES)

1. A consumer will demand a commodity which
   A. Satisfies his/her needs C. Is sold in bulk
   B. Is often scarce D. Has been extensively advertised

2. The provision of services falls under the production called
   A. Commerce B. Primary C. Tertiary D. Secondary

3. A carpenter who makes furniture for his or her own use is engaged in
   A. Indirect production C. Direct production
   B. Indirect services D. Direct services

4. Which one of the following activities is an example of primary production?
   A. Road construction C. Teaching
   B. Manufacturing D. Fishing

5. The bearing of risks in production process fall on
A. Capital owners
B. Labourers
C. Land owners
D. Entrepreneurs

6. Which of the following is classified under secondary industries?
A. Mining and farming
B. Textile milling and road construction
C. Mining and textile milling
D. Farming and road construction

7. Which one of the following is not considered a productive activity?
A. Looking after cattle
B. Hunting for leisure
C. Preparing food for the school
D. Playing football for a soccer club

8. ………..is the final stage in the process of production.
A. Exchange B. Distribution C. Consumption D. Trade

9. Two kinds of goods usually produced are
A. Investment goods and capital goods
B. Labour and capital
C. Assets and capital
D. Consumer goods and capital goods

10. What does the word "market" mean in commerce?
A. A place where items are bought and sold
B. Buying and selling of goods and services
C. A place where consumers haggle over prices
D. An arrangement by which buyers and sellers are kept in close contact.

11. Land and capital are factors of production, which of the following would provide a 3rd factor?
A. Staff B. Premises C. Vehicles D. Machinery

12. Retailers who sell only coca cola products are examples of
A. Single shops B. Multiple shops C. Tied shops D. Mobile shops

13. A retail business that depends on extensive advertising is the
A. Mail order shops
B. Multiple shops
C. Departmental stores
D. Self service stores

14. A commission agent is one who
A. Links buyers and sellers for a fee
B. Sells goods on behalf of the manufacturer
C. Sells goods by auction
D. Guarantees payment for the principal

15. The practice by large scale retailers to keep prices as low as possible is called
A. Resale price maintenance
B. Minimum price legislation
C. Loss
D. Maximum price legislation

16. The process of distinguishing related products by producers is called
A. Branding B. Blending C. Pre-packaging D, Standardisation

17. A wholesaler offers the following services to a manufacturer except
A. Giving credit facilities C. Prompt cash payment
B. Buying goods in bulk D. Advertising the goods

18. An agent who sells goods on behalf of his/her client is known as
A. Broker B. Commission agent C. Factor D. Del – credere

19. Which of the following is an advantage of the retailer to the consumer?
A. Offering wide variety of goods to consumers
B. Selling goods at low prices to consumers
C. Keep prices stable for the consumers.
D. Buying for the consumers only cheap goods from wholesalers

20. Which one of the following functions of a wholesaler benefits consumers?
A. Helping in keeping prices of goods stable
B. Extending credit facilities to consumers
C. Buying goods in large quantities and selling in small quantities to consumers
D. Transporting goods to the consumer's premises

21. What is a retail established stocking one class of goods under one management?
A. Department store C, Multiple shops
B. Hyper market D. Super markets

22. Supermarkets are different from other large scale retail businesses because of
A. Selling one type of goods C. Extending credit facilities to customers
B. Self service D. Selling to only registered members

23. The difference between a broker and a factor is that a
A. Broker owns the goods unlike a factor
B. Factor possesses goods unlike a broker
C. Factor gets higher commission unlike a broker

24. The act of giving names to commodities is known as
A. Pre-packing B. Branding C. Trade mark D. Blending

25. Departmental and multiple shops are grouped under
A. Wholesaler C. Chain stores
B. Supermarkets D. Large scale industries

26. Loss leaders are used by large scale retailers to
A. Keep the price as low as possible C. Dismiss unfaithful shop attendants
B. Stock more goods in the shelves D. Increase sales

27. Which of the following form of small scale retail business?
A. Departmental stores C. Supermarkets

B. Multiple shops D. Mobile shops

28. …………guarantees payment against goods to the principle whether the goods are sold or not.
A. Factor B. Broker C. Jobber D. Del – credere

29. "Sales psychology is scientifically applied." This is one of the chief feature of
A. Multiple shops C. Supermarkets
B. Retail co-operatives D. Departmental stores

30. Itinerant traders would include
A. Tied shops B. Village stores C. Barrow boys D. Supermarkets

31. The document that acknowledges settlement of a debt is
A. An order B. An invoice C. A receipt D. A statement of account

32. A document which shows a summary of transaction between a seller and a buyer for a particular period is called
A. An invoice B. A statement of account
C. A consignment D. A credit note

33. The term of payment where the carrier demands for payment before releasing goods to the buyer is
A. Spot cash B. Prompt cash C. Cash on delivery D. Cash with order

34. Which of the following abbreviations included in an invoice signifies the seller reserves a right to correct on invoice?
A. F.O.B B. C & F C. C.I.F D. E & OE

35. What is a kind of trade where a buyer can claim compensation from the seller if the goods are found defective?
A. A condition B. Caveat emptor C. Subrogation D. Warranty

36. Which of the following documents does a buyer receive if he has been overcharged in an invoice?
A. Advice note B. Debit note C. Credit note D. Proforma invoice

37. In the following sets, which one is the correct order of use of the document?
A. Price current, Advice note, Invoice and Debit note
B. Order, Price current, Invoice, Advice note and Debit note
C. Price current, Invoice, Order, Advice note and Debit note
D. Price current, Order, Advice note, Debit note and Invoice

38. Which of the following three combinations is a correct alternative for each transaction?
A. Cash with order, C.T.L, Spot cash
B. Cash and delivery, F.O.B, cheque

C. Price list, Cash on delivery, Catalogue
D. Cash with order, cash on delivery, Spot cash

39. When estimates for the cost of supplying a certain product are required, a buyer may invite supplier to submit
A. Contracts B. Tenders C. Invoice D. Proforma invoice

40. Status inquiries will always be conducted on a new prospective customer. A procedure carried on by…………
A. the buyer B. the seller C. the bank D. an agent

41. F.O.B quoted prices exclude
A. cost of carriage to the docks
B. Loading expenses onto the ship
C. Insurance charges
D. Handling charges at the docks

42. Which one of the following documents enables the correct calculation of customs duties on the goods?
A. Bills of lading
B. Letter of hypothecation
C. Letter of credit
D. Certificate of origin

43. Entrepot trade refers to
A. Re-export trade
B. Trade between two countries
C. Barter trade
D. Multi-lateral trade

44. A price quotation which excludes the buyer from the import expenses is referred to as
A. Ex-works B. In-bond C. Franco D. Loco

45. Government can best control imports through
A. Levying low excise duties
B. Fixing import and export quotas
C. Charging high taxes on foreign goods
D. Giving subsidies to local producers

46. If import prices rise faster than export prices, a country is said to be experiencing unfavourable
A. Terms of trade
B. Balance of trade
C. Terms of payment
D. Balance of payment

47. A document where the importer specifies the manufacturer of the goods to be imported is called
A. An order B. A closed indent C. An invoice D. A certificate of origin

48 Dumping as applied in trade means
A. Disposal of goods that have gone stale
B. Disposal of goods in water to save a ship from sinking
C. Producing of too many goods that cannot be bought

D. Selling of goods abroad at a give away price.

49. Which of the following sets are functions of a bill of lading?
i) It acts as a receipt
ii) It is a contract of carriage (for the goods)
iii) It is a document of title to the goods
iv) It puts the liability of damages in transit on to the shipper

A. (i), (ii), (iii) B. (i), (iii), (iv) C. (i), (ii), (iv) D. (ii), (iii), (iv)

50. Which one of the following methods of trade restriction is being used by OPEC?
A. Tariffs B. Total ban C. Price control D. Quotas

51. A bill of lading is
A. An indent
B. A document of title which evidences the ownership of goods
C. A certificate of inspection
D. A bill of goods in international trade

52. ………is the document that is signed by Uganda High Commissioner in London for an importer in Uganda.
A. Letter of hypothecation C. Letter of credit
B. Proforma invoice D. Consular invoice

53. The law of comparative advantage encourages countries to
A. Dump in each other's country
B. Set up limited trade barriers
C. Increase friendship amongst themselves
D. Specialise in production of the goods suitable to their resources

54. Why do you think Government policy may put restriction on international trade?
A. To evaluate its currency
B. To encourage expatriates into a country
C. To encourage expatriates into a country
D. To improve on its balance of payment position

55. Which of the following expenses will the importers not incur if his supplier quotes F.A.S price?
A. Ship freight C. Insurance
B. Dock handling charges D. Ship loading expenses

56. In a consumer's co-operation society, profits are shared according to each member's……
A. Role in the society C. Initial contribution to the society
B. Purchase from the society D. Number of shares held

57. Which one of the following is true about marketing boards? They
A. Only sell to local markets
B. Buy from farmers through co-operative societies

C. Only sell to foreign markets
D. Buy goods direct from small scale farmers

58. A debenture where some property is pledged against is called
A. Irredeemable debenture C. Redeemable debenture
B. Naked debenture D. Mortgage debenture

59. Which one of the following statements is correct about co-operatives?
A. Members share profits equally
B. Decision making is according to the number of shares held
C. Profits are shared according to participation
D. The number of membership is limited to fifty.

60. The most common form of business in East Africa is
A. Sole proprietorship C. Joint Stock companies
B. Partnership D. Co-operatives

61. A partner who contributes capital, shares profits and losses but does not take part in the day to day running of the business is
A. Limited B. Quasi C. General D. Dormant

62. The following are advantages of a sole proprietorship business except
A. Enjoyment of limited liability C. Enjoyment of all the profits
B. High level of flexibility D. Quick decision making

63. The payment of dividends in a producer cooperative society depends on each member's
A. Capital contribution C. Number of shares
B. Amount of sales D. Honesty and loyalty

64. Which one of the following documents allows a public company to appeal for shares from the public?
A. Certificate of Incorporation C. Memorandum of Association
B. Articles of association D. Certificate of Origin

65. A document that empowers the public limited company to commence business is called
A. Certificate of incorporation C. Certificate of trading
B. Memorandum of association D. Articles of association

66. An accumulative preference shareholder had missed dividends over the last three years due to lack of profits. If he holds fifty shares of shs 10,000 each at a rate of 6%, how much dividends will he get this year?
A. shs. 18,000 B. shs. 25,000 C. shs. 30,000 D. shs. 90,000

67. The articles of association
A. states the liability of members of a company
B. states the share capital of a company
C. outlines the objectives for forming a company

D. states the rights and powers of shareholders in a company.

68. The main reason why partners register their names with the registrar of business names is to
A. stop future quarrels among themselves
B. make names of real business owners known
C. get permission to proceed with the business
D. hide the names of the real business owners.

69. Which of the following may not cause winding up of a limited company?
A. Petition form the creditors
B. Company assets fail to cover debts
C. Voluntary winding up by shareholders
D. One of the shareholders decides to sell his shares

70. The total face value of shares that have been provided by the company are referred to as
A. Paid up share capital
B. Issued share capital
C. Called up share capital
D. Nominal share capital

71. Which of the following services is not a function of a marketing board?
A. Buying produce
B. Stabilising prices
C. Storing produce
D. Processing produce into finished goods

72. Nominal capital is
A. the amount that the shareholders have been asked to pay
B. the amount that has actually been received from shareholders
C. the maximum amount a company may raise by selling shares
D. the total face value of the shares that have been issued

73. …. Handles only one type of agricultural produce.
A. Central tender board
B. Produce Marketing Board
C. Advisory Board of trade
D. Commodity Marketing Board

74. A Statutory Marketing Board is normally
A. Set by the producers to market their crops
B. Set up to control the activities of other marketing boards
C. Set up and controlled by the government under an Act of Parliament
D. Established and controlled by the registrar of the co-operative societies

75. ……is the most important document prepared by the owners when forming a limited liability company.
A. Certificate of Incorporation
B. Memorandum of Association
C. Articles of Association
D. Certificate of trading

76. When a company is “limited by shares”, It means
A. the shares that a company may sell are limited in number
B. the company itself enjoys limited liability but the shareholders do not.

C. Each shareholder has guaranteed to pay a certain sum to the company in insolvent.
D. the liability of shareholders is limited to the capital they bought in.

77. Which one of the following organizations is responsible for consumer protection?
A. Uganda Revenue Authority (URA)
C. Uganda Investment Authority
C. Uganda Human Rights Association
D. Uganda Bureau of Standards

78. The government may set up a business enterprise to
A. Earn more profits
B. Enlighten the public on how to conduct business
C. Provide essential services
D. Sell shares to members of the public.

79. A tax levied on goods produced within a country is called
A. Specific tax
C. Excise duty
B. Advalorem tax
D. Customs duty

80. Which one of the following is true of indirect taxes? They are charged on
A. Personal incomes
C. Excess goods produced
B. Expenditure
D. Illegal goods and services

81. The main purpose of setting up corporation is to
A. Maximise profits
C. Provide essential goods and services
B. Sell shares to the public
D. Advise the public on how to conduct business

82. A tax which is charged on imported goods according to the commodity price is called
A. Advalorem tax
C. Specific tax
B. Direct tax
D. Quantitative tax

83. Why is consumer protection essential in advertising?
A. Checks the dangers of misleading advertisements
B. Creates demand for goods
C. Helps in reducing prices

84. Value Added Tax (VAT) is
A, A tax levied on goods from other countries
B. A tax paid by consumers at the time of purchase of a commodity
C. A direct tax paid on the Value Added to the product
D. An indirect tax paid on the value added to the product

85. Which of the following is not an establishment within the public sector?
A. Parastatal bodies
C. Public Corporation
B. Local Authorities
D. Public Limited Company

86. Assurance refers to cover against
A. Events that may or may not happen C. Damage by fire
C. Events that are bound to happen D. Non – Insurable risk

87. Which one of the following insurance policies is compulsory for all vehicles?
A. Comprehensive C. Fidelity guarantee
B. Accident policy D. Third party

88. Joyce insured her new car for ss. 12,000,000. By the time on accident occurred, it was valued at shs. 9,000,000 and the scrap was valued at shs. 120,000. If Joyce hoped to retain the scrap, how much would she obtain from the insurance company?
A. shs. 7,800,000 B. shs. 9,000,000 C. shs. 1,000,000 D. shs. 10,800,000

89. The insurance policy which covers goods in ships or in ports is called
A. Voyage policy C. Marine hull policy
B. Floating policy D. Marine cargo policy

90. The principle of insurance violated when the insured overvalues his/her property is
A. Utmost good faith C. Subrogation
B. Insurable interest D. Proximate

91. Money borrowed from a bank for which interest is only paid on the excess amount is called
A. Fiduciary Issue C. Loan
B. Bank overdraft D. Bonus

92. Which of the following may a drawer use to pay rent to a landlord on monthly basis for a year?
A. Credit transfer C. Bank draft
b. Money order D. Standing order

93. The advantage of credit card is that it
A. Can be used anywhere C. Guarantees payment over the set amount
B. Economises the use of cash D. Enables the holder to buy goods cheaply

94. Double coincidence of wants occurs when each of the parties involved in barter trade has
A. Exactly what the other one has C. Twice as much as the other
B. Exactly what the other one wants D. Similar wants as the other

95. The interest charged by central bank on any short loan is called
A. Bank overdraft C. Bank draft
B. Interest rate D. Bank rate

96. Why is a cheque crossed? So that
A. It may not be endorsed

B. Payment is done through the payee' account
C. It can be cashed across the counter
D. It can bounce easily

97. The account in a bank where withdrawal is only by cheque is
A. Fixed deposit account
B. Current account
C. Savings account
D. Joint account

98. Legal tender is a term used to mean
A. Currency
B. Money
C. A country's bank notes
D. A country's earnings from her exports

99. What do you call a banking policy used by a person who pays many people at a time?
A. Payroll B. Bank loan C. An overdraft D. Credit transfer

100. A cheque is drawn in favour of Winnie. How is Winnie described?
A. A payee B. A drawee C. A drawer D. An endorsee

STRUCTURED QUESTIONS

1 (a) What is meant by stock exchange?
(b) Explain the importance of stock exchange to a country.
(c) Describe the role of the following in stock exchange:
(i) Brokers
(ii) Jobbers

2 Outline the procedures of purchase of shares in the stock exchange market

3. Describe the following as used in stock exchange
(i) Stags
(ii) Per Value shares
(iii) Blue chips

4 (a) Explain the functions of the stock exchange
(b) Describe the limitations of stock exchange

5 (a) What is a financial market?
(b) Identify the types of financial markets
(c) Describe the functions of a financial market.
(d) Outline the sources of finances of financial markets

6 (a) Distinguish between the following:
(i) Consumer goods and producer goods
(ii) Primary production and secondary production
(b) Explain any four factors of production indicating a reward for each.

7 (a) What is the difference between demand and supply?
(b) Explain the factors that influence the demand of a commodity.

8 (a) Distinguish between terms of exchange and specialization.
(b) How are the two terms mentioned in (a) above inter-related?
(c) Give the disadvantages of specialization.

9 Some farmers prefer concentrating on one or two crops other than dealing in many crops. What are the advantages and disadvantages of this practice?

10 (a) Mention and explain what you would include under Trade and Aids.
(b) Give the reasons why the study of commerce is of importance.

11 (a) What is retail trade?
(b) State the differences between multiple shops and departmental shops.
(c) Explain why most traders prefer small scale retailing to large scale

retailing.

12 (a) What are the functions of a wholesaler?
(b) Under what circumstances may the service of a wholesaler not be required?

13 (a) What factors should be considered before setting up a retail business?
(b) Explain the functions of a retailer in home trade.

14 (a) Differentiate between peddlers and hawkers.
(b) Give reasons why the number of hawkers is on an increase in Uganda.

15 (a) Define the term branding.
(b) Outline the functions of branded goods.
(c) How does branding assist retail trade?

16 (a) State the contents of an invoice.
(b) What steps should be taken by the buyer when an invoice is received from the seller?

17 (a) Give the difference between a cash transaction and a credit transaction.
(b) What document can be used o find out whether a trader is credit worth or not?
(c) Explain the sources available of obtaining a confidential report on a buyer's credit worthiness in your country.

18 The Purchasing Manager Mr. DDT Kombe of Magoda Fency Store P.O. Box 4761 Mbale wishes to order from Tonga Enterprises Ltd P.O. Box 1003 Kampala the following items.

- 20g 8cm Baati sauce pans
- 15g 13kgm L.P. gas cylinders and
- 40g of size 6 Masanda sleepers.

a) What document will be prepared before making the order?
b) What is the main use of the document?
c) What is the name of the document made in the response of the document in (a) above?
d) Prepare an order from the information given above. Use today's date and order No. 9011.
e) In which ways can the errors in the invoices be corrected?

19 State clearly the meaning of the following
a) Dumping
b) Proforma invoice

20 (a) What is meant by the terms "Balance of trade" and "Balance of payment"?
(b) What advantages does Uganda enjoy by trading with other countries?

(c) Why might it be disadvantageous for Uganda to be too dependent on international trade?

21. (a) Differentiate between the following terms as used in International trade.
    i. Bilateral trade and Multilateral trade
    ii. Balance of trade and terms of trade
    iii. Open indent and closed indent

(b) Describe the factors that limit international trade.

END