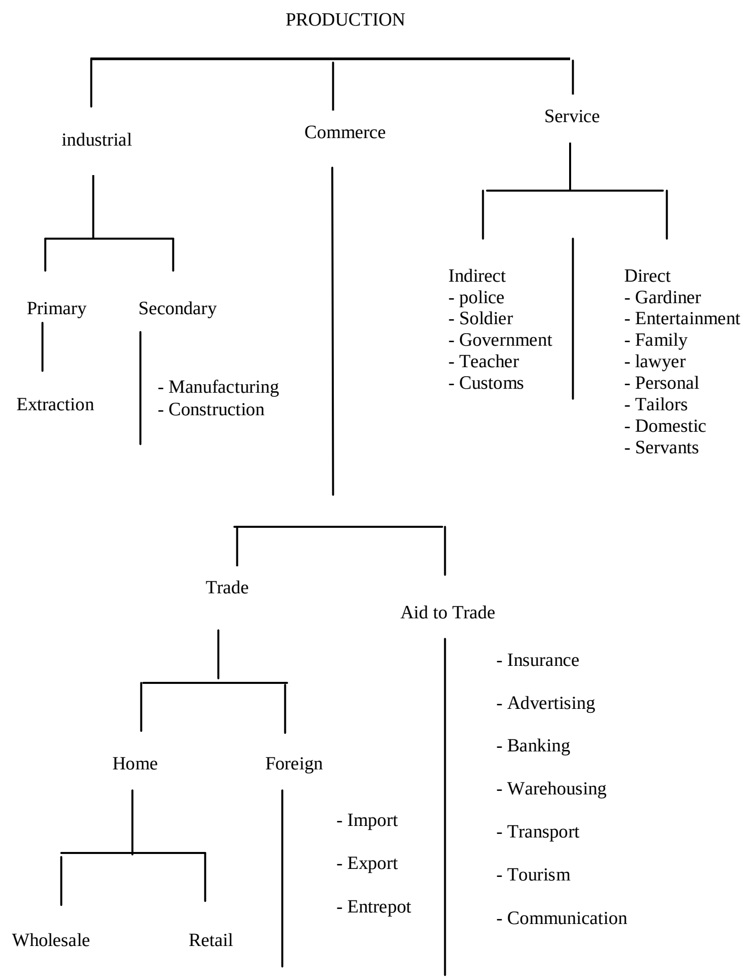
MAY/JUNE 2009
COMMERCE 421
QUESTIONS AND MODEL ANSWERS.

1(a) What is Production?
(b) With the aid of a diagram, explain the forms of production.

Q1(a) Production is the act of making goods and services to satisfy human want.

(b) Forms of production in diagram:



QUESTION

2(a) What is commerce?

(b) List and explain FIVE importance of commerce to an economy.

Q2.(a) Commerce is the distribution of goods and services and including all the ancillary services that make mass distribution possible

OR

Commerce is trade and aid to trade.

(b) Importance of commerce to an economy are:

(i) **Exchange of goods and services:** Commerce facilitates exchange of goods and services through buying and selling.

(ii) **Warehousing:** Commerce makes storage possible through warehousing.

(iii) **Employment opportunities:** Commerce provides employment opportunities

(iv) **Finances business:** Commerce assists in financing business through banks

(v) **Improves standard of living:** Commerce increases the standard of living of a people by bringing in variety of goods from other countries.

(vi) **Inter-dependence of nations:** Commerce makes for interdependence of nations through international trade

(vii) **Specialization:** Commerce facilitates specialization and mass production of goods and services

(viii) **Transport:** Commerce aids the movement of goods and services from areas of abundance to where they are scare through transportation.

(ix) **Communication:** Commerce promotes rapid transfer of both oral and written messages through communications

(x) **Creates awareness:** Commerce creates awareness for goods and business opportunities through advertising

(xi) **Generating of revenue:** Commerce generates revenue for entrepreneur and for the nation.

(xii) **Development of infrastructure:** Commerce leads to the development of infrastructural facilities.

3(a) What is branding?

(b) State FIVE reasons for branding

(c) Mention THREE reasons against branding

Q3(a) Branding is the act of giving distinctive name or label to a product. It helps in creating, stimulating and maintaining demand for it. It is a form of advertising.

(b) **Reasons for branding:**

(i) Memory recall is facilitated. This leads to greater frequency of buying and brand loyalty.

(ii) Advertising can be directed more efficiently and linked with other communication programmes.

(iii) Branding leads to a more ready acceptance of a product by wholesalers and retailers
(iv) Self-selection is facilitated. This is very important in self service stores.
(v) Display space is more easily obtained and special
(vi) The amount of personal persuasive selling effort may be reduced
(vii) Branding makes market segmentation easier. Different brands of similar products may be developed to meet specific categories of users.
(viii) The importance of price differentials may be diminished.

(c) **Three reasons against branding:**

(i) Too many brands confuse the consumers
(ii) Branding may lead to monopoly.
(iii) Branded goods cost more
(iv) The brand could be abused to the detriment of the consumer

4(a) Enumerate FIVE documents used in international trade
(b) Explain five problems associated with foreign trade.

Q4 (a) **Documents used in international trade:**

(i) An indent
(ii) Shipping note
(iii) Calling forward notice
(iv) Freight note
(v) Bill of lading/mate's receipt.
(vi) Invoice
(vii) Consular invoice
(viii) Certificate of origin
(ix) Bill of exchange
(x) Letter of credit/documentary credit
(xi) Letter of hypothecation
(xii) Ship manifest
(xiii) Certificate of insurance
(xiv) Inspection certificate
(xv) Dock Warrant
(xvi) License (Export & import)

(b) **Problems associated with foreign trade:**

(i) Language difference: There is need for an interpreter when selling to countries speaking different languages
(ii) Tariffs: Goods may be subject to high import duties.
(iii) Varying customs/cultures/religions: There is the problem of knowing these in order to determine what to sell to them.
(iv) Foreign competitions: Other producers of similar products in other countries may compete. There may be more difficulty in securing foreign market or agents.

(v) Differences in weight and measures: Some countries use metric system while others use imperial system
(vi) Distance/transport/communication: It takes long to travel from a country to another and the problem becomes more where there is no efficient communication.
(vii) Prevailing social, economic and political conditions: The exporter is faced by these, which may vary from time to time
(viii) Exchange control regulations: Inability of the buyer to pay, or refusal of a foreign government to release foreign exchange
(ix) Documents: Documentation is more complicated in foreign trade than in home trade
(x) Difference in technical specifications for different products
(xi) Insurance: Higher premium is paid to effect insurance cover in foreign trade.
(xii) Physical hazard during transportation: There is grater of corrosion of steel goods, damage in rough weather or jettison and thefts in transit
(xiii) Currency: An exporter needs to change his own currency for those of other countries
(xiv) Artificial barriers/Restrictions: An exporter faces these barriers, which restricts the volume of foreign trade

5(a) Define credit sale
(b) Explain FIVE conditions for a valid contract.

Q5(a) Credit is an arrangement whereby the seller agrees to let the buyer take delivery of the goods with a promise to pay for them within a certain period of time, which is agreed upon by both parties.

(b) **Conditions for a valid contract;**
(i) An offer must be made: This means that one party must propose that an agreement be made by both parties. A specified offer must be made to make clear the intention of the offeror.
(ii) The offer must be voluntarily accepted: The offeror must accept the offer before a contract is made.
(iii) Both the offeror and the offeree must give a valuable consideration. An agreement can become a contract only when both the offeror and the offeree give or promise to give something of value to the other.
(iv) Both parties must have legal capacity to contract. Only adult citizens who are not insane have full capacity to enter into any kind of contract
(v) The contract must be in poor form. Although most contracts can be made by an oral statement, by an act or by a casually written document, for some types of contract, the law requires that a prescribed form be allowed

6(a) List FIVE benefits of insurance to an economy
(b) Explain FIVE principles of insurance

Q6(a) **Benefits of insurance to an economy:**

(i) It is a safeguard against the numerous risks to which capital is exposed.

(ii) It reduces the burden of losses to the entrepreneur

(iii) It gives the entrepreneur the confidence and provides him the security needed to venture into certain areas.

(iv) It promotes bilateral and multilateral trade

(v) Insurance companies are a good source of capital for investment.

(vi) A life assurance policy can be used as a collateral to raise a bank loan needed for investment or business expansion.

(b) **Principles of insurance:**

(i) Utmost good faith: This term means that all relevant information that may affect the contract of insurance must be truthfully disclosed by the insured and insurer.

OR

Failure on both parties to disclose any relevant material facts renders the contract void.

(ii) Indemnity: This means restoring the insured to his former position before the occurrence of the event insured against.

OR

It is a protection against loss, as well as prevents the insured from making a profit as a result of the event insured against.

(iii) Insurable interest: This refers to the disadvantage or financial loss that a person will suffer when the event insured against happens

OR

It is a condition of insurance that one must have interest (measurable in money terms) in a particular article or property to be insured.

(iv) Contribution: Where a person has a particular risk covered by more than one insurance company, the person will not be able to claim fully from each of the companies.

Each would pay only a proportion of the loss and so, the insured does not make gain from the contract of insurance in keeping with the principle of indemnity.

(v) Proximate cause: This term implies that a proof is required that the direct and immediate cause of the loss suffered was by the occurrence of the risk insured against.

OR

Only losses arising from the direct and immediate cause of the event insured against are indemnified

(vi) Subrogation: This term refers to the right which the company has to stand in the place of the insured and avail itself to certain legal rights and remedies, which the insured has against a third party who is liable for the occurrence of a loss

OR

To prelude the insured from being indemnified from two sources in respect of the same loss, i.e. claim from the policy of insurance for the loss, as well as retain damages recovered from the third party who causes the occurrence of the loss.

7(a) Mention FIVE laws that protect the consumers.
(b) Explain the FIVE laws mentioned in 7(a).

Q7(a) **Laws that protect the consumers:**
(i) Sale of good act
(ii) Usury laws
(iii) Hire purchase act
(iv) The price control decree
(v) Food and drugs act

(b) **EXPLANATION**
(i) Sales of goods act: This law states the right and duties of both buyer and sellers.
(ii) Usury laws: These are laws that fix the rate of interest that may be charged on loans.
(iii) Hire Purchase Act: This sets out the rights and duties of the hire purchaser from cheating and exploitation.
(iv) The price Control Decree: This pegs the selling prices of some goods. The provisions of law protest the consumer from paying exorbitant prices for certain goods
(v) Food and Drugs Act: This act forbids the adulteration and misbranding of food and drugs sold in Nigeria. The food and Drugs department of the federal ministry of health ensures that the objectives of the law are achieved.

8(a) Define the term "Wholesaler".
(b) Explain FIVE reasons why a wholesaler can be eliminated from the chain of distribution.

Q8(a) Wholesaler is the middleman or medium through which the producers' products get to the consumer through retailers. He thus relieves the producer of the distributive functions. This lowers cost for the producer since he does not have to invest on rail outlets or engage many sales persons.

(b) Reasons why a wholesaler can be eliminated from the chain of distribution:
(i) Where perishable goods are involved
(ii) Where the manufacturer has well branded goods
(iii) Where the goods are of a technical value requiring well qualified technicians for sales, installation, advice and service.
(iv) Where consumers order to specification
(v) Where the rate of turn over is low
(vi) Where there are large single retailers with enough capital to deal directly with the producer
(vii) Where goods can be sold by mail order
(viii) Where the producer has his own retail outlet.

9(a) List FOUR types of cheques
(b) Explain SIX ways commercial banks assist businesses in Nigeria

Q9(a) Types of cheques are:

- (i) Open cheque
- (ii) Crossed cheques
- (iii) Certified cheque
- (iv) Traveler's cheque
- (v) Cashier's cheque

(b) **The ways through which commercial banks can assist business in Nigeria.**

- (i) Commercial banks accept cash and other valuables for safe keeping
- (ii) Commercial banks act as agents of their customers
- (iii) Commercial banks grant short term loans to their customers through over draft loans
- (iv) Commercial banks render brokerage services to their customers through buying and selling stocks and shares on their behalf
- (v) Commercial banks provides facilities for financing international trade
- (vi) Commercial banks secure overseas intelligence reports for their customers
- (vii) They provide services to travelers in the form of travelers' cheque, foreign exchange and night safe facilities
- (viii) Commercial banks discount bills of exchange by paying cash for bills of exchange before the bills mature.

10 Explain the following business environments as they affect business.

- (i) Legal environment
- (ii) Political environment
- (iii) Economic environment
- (iv) Cultural environment

(i) **Legal environment:** The business has to operate bearing in mind that the legal provisions such as decrees, rules and regulations, that affect its operations are to be obeyed.

(ii) **Political environment:** Government policies determine business practices and investment climate in an economy. The priority of the political party in power would definitely affect business operations positively or negatively

(iii) **Economy environment:** This involves income distribution, expenditure patterns, inflationary trends and saving capability of consumers. These affect business activities as consumers buy more during the era of boom, and vise versa. Companies fold up during recessions and employees are retrenched as businesses operate below capacity.

(iv) **Cultural environment:** This could be social or religious. Changes in cultural environment affect consumers' attitude and life style, which invariably affect their purchasing and consumption habits.