

COMMERCE

FORM ONE

NOTES

TOPIC ONE: THE SCOPE OF COMMERCE

The Scope of Commerce

The Nature and the Subject Matter of Commerce

Explain the nature and the subject matter of commerce

THE MEANING OF COMMERCE

The scope of commerce means areas of study covered in commerce. It comprises the study of all activities in the transfer (distribution) of goods and services from the producers to consumers.

Example of those activities include trade, transportation, banking, insurance etc

The scope of commerce covers the following:

- The study of trade, which is the main activities in the distribution of goods and services
- The study of auxiliary services(aids to trade) that make trade possible
- The study of how trade and aids to trade could be organized so as to satisfy the needs of a consumer in the most efficient way.

COMMERCE is a branch of production which deals with the exchange of goods and services and all activities that facilitate the transfer of such goods and services from producer to final consumers.

DIVISION OF COMMERCE

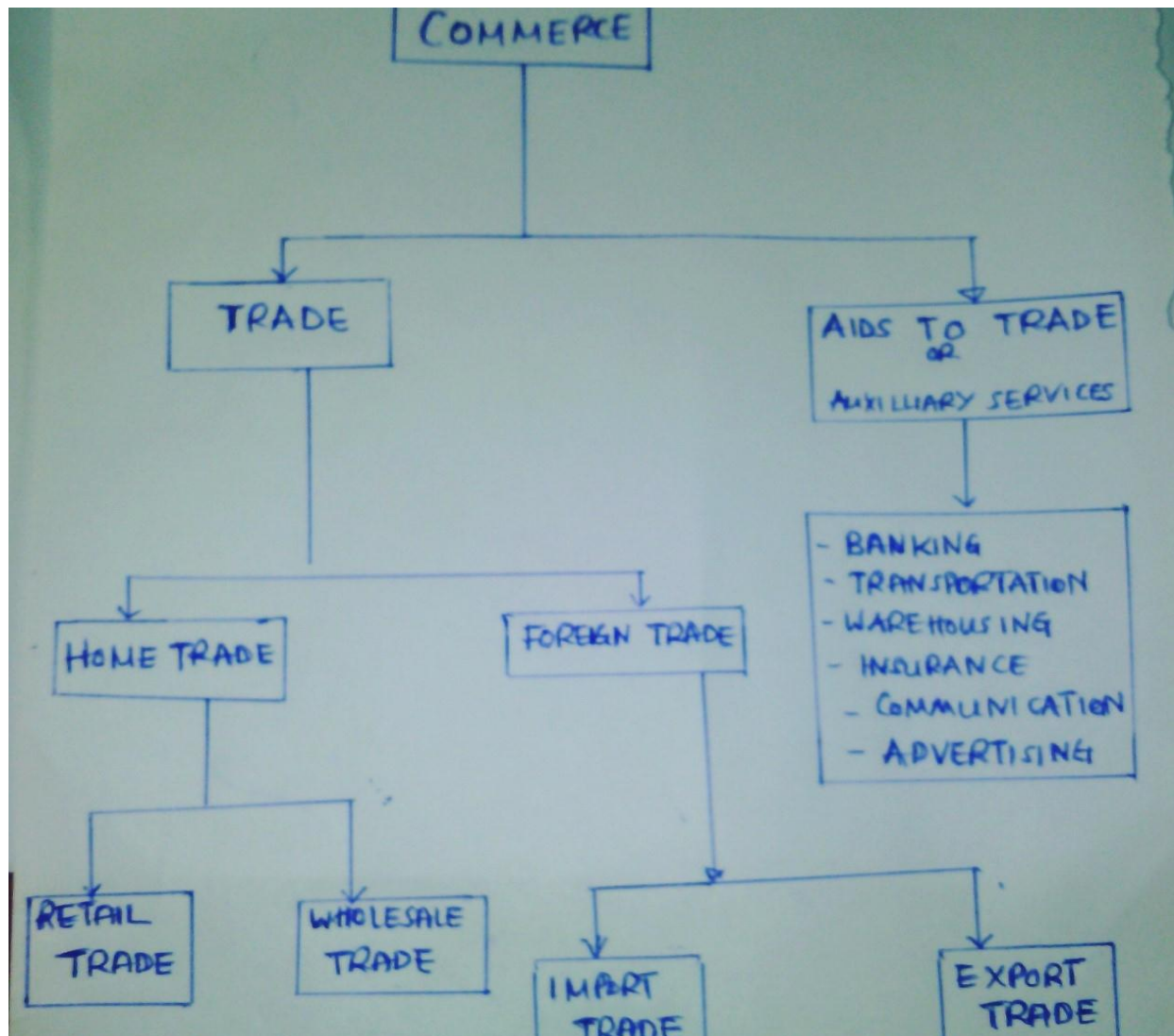
Commerce is divided into two branches, which are:

1. Trade
2. Aids to trade

Commerce Flow Chart

Draw the commerce flow chart

COMMERCE FLOW CHART.



1).TRADE:

Refers to the process of buying and selling of goods and services, with the intention of generating profit. A person who engages in trading activities is known as a trader.

Trade is sub divided into two main branches, which are: a) Home trade and b) Foreign trade.

A. HOME TRADE

This is the buying and selling of goods and services within in a country. Home trade is divided into two main branches;- Retail trade and Wholesale trade

Retail trade: This is the buying of goods from producer or wholesalers and selling them to the final consumers. Retailer is a person who buys in small quantities from the wholesaler or producer and then sells it to the final consumer.

Wholesale trade: This is the buying of goods in large quantity from manufacturer or producers and selling them to other business men in smaller quantity at lower price. Wholesaler is a trader who buys in bulky (large quantities) from the producers and sells it in small quantities to the retailers or straight to the consumers.

B.INTERNATIONAL TRADE (FOREIGN TRADE)

International trade-is a trade between one nation and other nations. It is the exchange of goods and services across the national borders. For example, exchanging the goods and services between Tanzania and china.

International trade is divided into two types:

- export trade
- import trade

Export trade is the process of selling goods and services to other countries. For example, selling of Tanzania gold to China.

Import trade: is the process of buying goods and services from other countries. For example, buying of mobile phones from china and selling them locally in Tanzania.

2. AIDS TO TRADE

Aids to trade are all the activities which facilitate trade. Aids to trade make trade less difficult to carry out. Examples of aids to trade include the following:

- a) Communication: is the transmission of information from one point or person to another point or person. People can exchange information among each other either orally or using telephone,internet,radio and television.

- b) Transportation: This refers to the movement of physical goods and people from one place to another. Moving of goods from one place to another can be through land using motor vehicles, over water using marines or air using planes.
- c) Warehousing: Refers to the storing of goods so that they are made available when and where they are required. Goods which can be stored include crops, and perishable foods like fish, meat and fruits.
- d) Insurance: a system of pooling risk together by contributing small sums of money to a common pool which in the long run, compensate the people or a person who suffers from actual loss. Examples of risks or losses are theft, robbery, fire, floods and accidents.
- e) Banking: Helps to finance trade. It also provides a safe place to keep money, and provides means of payments and lending money in a form of loan to businesses.
- f) Advertising: Is a process of letting consumers know about what goods and services are available in the market. Advertising of goods and services to public can be done through newspapers, magazines, radio, televisions, banners and cinema.

Importance of Commerce in Everyday Life

Explain the importance of commerce in everyday life

IMPORTANCE OF STUDYING COMMERCE IN EVERYDAY LIFE.

- It helps in the development of a country's economy. Trade and aids to trade enable the goods produced to reach the final consumers, and the fore increase the production and the national income.
- Commerce enables the producers to get enough information about the availability of goods and services in the market availabilty of inputs leads to increase in production and information about availability of goods stimulates consumption, and therefore induces more production.
- The knowledge of commerce enables learners to understand other fields of knowledge like economics. The knowledge of commerce also, enables economists to get better understanding about the fields of studies in economics, such as international economics.

- It enables businessmen and women to conduct trade. The knowledge of commerce enables businessmen and women to conduct trade by simply knowing the means of exchange and sources of supply.
- It is necessary for satisfying human wants through trade and aids to trade. Trade and aids to trade involve changing the situation of a commodity from where it is produced to the place where it is needed for consumption. In this process, commerce creates utility.

Difference between Commerce and Economics

Distinguish between commerce and economics

The main distinction between economics and commerce is that, the subject matter of economics is wider than the subject matter of commerce. Economics deals with all the activities involving production, distribution, exchange and consumption. Commerce is concerned with one section of economics activities. It is a system through which raw materials are distributed to the producers and the finished products to the consumers.

Commerce is therefore a branch of economics that deals with the exchange of goods and services, and the activities that facilitate it.

This means that all the subject matter of commerce are studied in economics, but not all the subject matters of economics are studied in Commerce.

Development of Commerce in Tanzania

Discuss the development of commerce in Tanzania

THE DEVELOPMENT OF COMMERCE IN TANZANIA.

Commerce plays a fundamental role in the satisfaction of human wants. In primitive societies, the producers themselves were the consumers. Hence; they were compelled to provide themselves with foods, shelter and clothes. Under such circumstances, the question of commercial transactions or exchange of goods and services did not arise. But slowly their wants started to increase in size and in number. They were no longer able to satisfy all their wants, so they began exchanging the commodities produced with those produced by others. This exchange of goods for

goods was known as barter system of trade. However, barter trade could not persist for a long period of time due to the following demerits:

- **Lack of Double Coincidence of Wants:** Barter transactions can be possible only when two persons desiring exchange of commodities should have such commodities which are mutually needed by each other. For example, if Fatma wants cloth, which Tully has, then Fatma should have such commodity which Tully wants. In the absence of such coincidence of wants, there will be no exchange. However, it is very difficult to find such persons where there is coincidence of wants. One had to face such difficulties in barter economy because of which this system had to be abandoned.
- **Indivisibility of some commodities:** The second difficulty of barter exchange relates to the exchange of such commodities which cannot be divided. For example, a person has a cow and he wants cloth, food grains and other items of consumption. Under such a condition, exchange can be possible only when he discovers a person, who is in need of a cow and has all such commodities, but it is very difficult to get such a person. Then how to affect the exchange. Similarly the second problem relates to the exchange of such commodities which cannot be divided into pieces, because in this kind of situation, a big commodity like cow cannot be divided into small pieces for making payment of the goods of smaller value.
- **Lack of a Common Measure of Value:** The biggest problem in the barter exchange was the lack of common measure of value i.e., there was no such commodity in lieu of which all commodities could be bought and sold. In such a situation, while facilitating the exchange of a commodity its value was to be expressed in all commodities, such as one yard cloth is equal to $\frac{1}{2}$ kilogram of potato etc. It was a very difficult proposition and made exchange virtually impossible. Now, with the discovery of money, this difficulty has been totally eliminated.
- **Lack of Store of Value:** In a barter economy, the store of value could be done only in the form of commodities. However, we all know that commodities are perishable and they cannot be kept for a long time in the store. Because of this difficulty, the accumulation of capital or store of value was very difficult and without the accumulation of capital, economic progress could not be made. It is because of this reason that as long as barter system continued, significant progress was not made in the world anywhere.

MERITS OF BARTER SYSTEM

- The risk of theft is lower in barter system than the risk of using money. Almost all modern forms of money can easily be stolen and are more vulnerable to theft than commodities.
- The value of commodities tend to be stable over a long period of time, unlike the value of money which depreciates in value after a certain period of time. Due to depreciation in value, money plays little role as a future store of value.
- Barter trade is very useful in non-monetary economies, where money is too scarce to be used as a medium of exchange. For example, in rural areas barter trade is widely applied due to scarcity of money.

BARTER SYSTEM IN MODERN TIMES.

Due to invention of money, barter system is not so much practiced, however it is still applied in some situation as:

- Sometimes in the rural areas people exchange crops for crops or animals
- Countries can opt to exchange goods for goods when there is no foreign currency e.g. cotton for oil.

HOW MONEY SOLVE HAS SOLVED THE PROBLEMS OF BARTER SYSTEM

Double Coincidence of Wants:

Money as medium of exchange has removed the double coincidence of wants. Under monetary system money is exchanged for goods and services when people buy things Goods and services are exchanged for money when people sell things, there is no necessity for a double coincidence of wants in the presence of money.

A man with the wheat, who wants to purchase oil, need not to find a person having oil and wants wheat. He can sell his wheat in the market for money and then purchase oil with the money thus obtained.

- **Common Measure of Value:** Money has overcome the difficulty of common measure of value by acting as a standard of value. In a money economy the value of any commodity can easily be expressed in terms of money.
- **Store of Value:** Money has removed the difficulty of store of value. Money is used to store the value (wealth) of goods and services. One can store one's earning in terms of money without any difficulty.
- **Future Payments:** Money has overcome the difficulty of future payments. Debts and future payments are stated in terms of money. There is no problem in receiving and making payments in future.
- **Sub Division:** Money has solved the problem of sub-division of commodities as money is easily divisible. With the help of money one can exchange individual commodity of great value for a commodity of less value. Money has made it possible to buy goods of both high and low value.
- **Transfer of Value:** Money has made easy the transfer of wealth from one place to another place. A person can sell his immovable and movable property or things at one place and transfer his wealth to another place in terms of money.

Exercise 1

Quiz.

- What is the usefulness of studying commerce?
- Mention and explain any two economic activities which are non commercial.

PRODUCTION

Production

Meaning of the Term "Production"

Define the term "Production"

Production is any activities, which results in the creation of goods and services in order to satisfy human wants. In economics sense, production is for exchanging. In the general meaning production may mean the creation of goods and services for personal consumption. Production is not complete if there is no consumption. Therefore, production involves activities which facilitate transfer of goods and services from the areas where they are produced to where they are demanded for consumption. Example of such activities which facilitate transfer of goods and services

are: Transportation, communication, warehousing, banking, advertising, insurance, marketing etc.

CLASSIFICATION OF PRODUCTION ACTIVITIES.

According to the modern classification there are five categories of activities:

- a. Primary activities: These involve extraction of raw materials directly from the earth or the sea. Example of primary activities: are farming, fishing, lumbering, mining etc
- b. Secondary activities: These involve changing the form of a commodity from a stage of raw materials to a stage of final goods. Example of secondary activities is manufacturing.
- c. Tertiary activities: These are activities that involve changing the situation of a commodity from where it is produced to a place where it is need for consumption. Tertiary activities are divided into two main activities. Which are: **1) Commerce:** involve trade and aids to trade. **2) Direct services:** this involves activities which render services directly to consumers. Example of direct services is teaching, banking services, medical services, law etc.
- d. Quaternary activities: These involve provision of specialist information and expertise for all above sectors i.e. primary, secondary and tertiary industries. Example: computer programming, research, engineering etc.

e. Quinary activities: These involve the services which include administration and supervision by the government, research and education.

TYPES/KIND OF PRODUCTION.

There are two types of production

- a. Direct production: This is the production of goods and services for personal consumption. It is also known as subsistence production. For examples. When a farmer produces maize for his own use not for sale.
- b. Indirect production: This is when the producers produce goods for sale. for exampe,when a farmer produces maize for sale.

Different Types of Goods

Explain the different types of goods

CLASSIFICATION OF GOODS

Goods are classified under the following categories:

1) Free goods VS Economic goods

Free goods: These are the goods which are provided freely by nature. They are available without using any resources, for example, air is free goods.

Features of Free goods

- They are not scarce, that is, they are abundant.
 - They are not produced by human effort.
 - They are not transferable in terms of ownership.
 - They lack exchange value.
- Economic goods: These are goods that are produced by paying for resources, for example, computers. They are goods produced by human efforts and possess the following qualities:
- They have utility (ability to satisfy wants)

- They have exchange value. That is, they can be bought and sold
- They can be transferable in terms of ownership.

NOTE: Economics is concerned with economic goods, not free goods because production in economics is for exchange and economic goods have exchange value.

2. Consumer goods VS Producer goods.

Consumer goods: These are the goods produced for final consumption or use. Examples of consumer goods are foodstuffs, clothes, furniture and the radio.

Producer goods: These are the goods that are produced for further processing to assist the production of other goods. They are also known as capital goods. Examples of producer goods are machinery, workshops, buildings, roads and railways.

3. Perishable goods vs. Durable goods.

Perishable goods: These are the goods which can easily be destroyed or decayed. like food stuffs e.g. milk, meat, fruits, vegetables etc

Durable goods: These are the goods which can stay for a long period of time without being destroyed. eg building, machinery, furniture etc

4. Private goods vs. Public goods.

Private goods: These are goods owned exclusively by individuals or family.

Public goods: These are the goods owned and enjoyed collectively. for example defense, roads etc

Features of Public goods

- Non divisibility: public goods are provided in totality to the public. For example, defence is provided in totality to all the citizens.
- Non rivalry: There is no competition in consumption; one person can consume an extra unit without reducing consumption of others.

- There is free rider problem in consuming public goods: there are some individuals who may enjoy public goods without paying for them.

5. Intermediate goods vs. final goods

Intermediate goods are the goods in progress while final goods are the goods that are ready for consumption.

Different Factors of Production

Identify the different factors of production

FACTORS OF PRODUCTION

These are the economic resources which assist the process of production. Factor of production are also known as inputs, tools of production and agents of production.

CATEGORIES OF FACTORS OF PRODUCTION

- a. Land
- b. Labour
- c. Capital
- d. Entrepreneurship/organization

a) LAND-includes all kinds of natural resources; that is, things which are not made by human being.

Features of land

- It is a gift of nature. It has been provided freely by god. it is not made artificially; that is, human being had nothing to bring land into existence; unlike other factors such as capital, which is accumulated or made by human being.
- Land is limited in quantity or fixed in supply so that even in the long run its supply cannot increase.
- Location of land is fixed

- Each plot of land has unique natural characteristic.
- Demand of land is derived demand.

NOTE: The reward of land is RENT.

Importance of land

- Land provides site/space where production can take place.e.g construction of building, schools, roads etc
- It is a source of most of raw materials that are used in production
- It is a source of power e.g. hydro- electric power and oil.

b) LABOUR-means any mental and physical efforts of human being in the process of production or any mental or physical efforts of human beings for any beneficial productive activity.

Characteristics of Labour:

Labour has the following peculiarities which are explained as under:

1. **Labour is Perishable:** Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once time is lost, it is lost forever.
2. **Labour cannot be separated from the Labourer:** Land and capital can be separated from their owner, but labour cannot be separated from a labourer. Labour and labourer are indispensable for each other. For example, it is not possible to bring the ability of a teacher to teach in the school, leaving the teacher at home. The labour of a teacher can work only if he himself is present in the class. Therefore, labour and labourer cannot be separated from each other.
3. **Less Mobility of Labour:** As compared to capital and other goods, labour is less mobile. Capital can be easily transported from one place to other, but labour cannot be transported easily from its present place to other places. A labourer is not ready to go too far off places leaving his native place. Therefore, labour has less mobility.

4. **Weak Bargaining Power of Labour:** The ability of the buyer to purchase goods at the lowest price and the ability of the seller to sell his goods at the highest possible price is called the bargaining power. A labourer sells his labour for wages and an employer purchases labour by paying wages. Labourers have a very weak bargaining power, because their labour cannot be stored and they are poor, ignorant and less organised. Moreover, labour as a class does not have reserves to fall back upon when either there is no work or the wage rate is so low that it is not worth working. Poor labourers have to work for their subsistence. Therefore, the labourers have a weak bargaining power as compared to the employers.

5. **Inelastic Supply of labour:** The supply of labour is inelastic in a country at a particular time. It means their supply can neither be increased nor decreased if the need demands so. For example, if a country has a scarcity of a particular type of workers, their supply cannot be increased within a day, month or year. Labourers cannot be 'made to order' like other goods. The supply of labour can be increased to a limited extent by importing labour from other countries in the short period. The supply of labour depends upon the size of population. Population cannot be increased or decreased quickly. Therefore, the supply of labour is inelastic to a great extent. It cannot be increased or decreased immediately.

6. **Labourer is a Human being and not a Machine:** Every labourer has his own tastes, habits and feelings. Therefore, labourers cannot be made to work like machines. Labourers cannot work round the clock like machines. After continuous work for a few hours, leisure is essential for them.

7. **A Labourer sells his Labour and not Himself:** A labourer sells his labour for wages and not himself. 'The worker sells work but he himself remains his own property'. For example, when we purchase an animal, we become owners of the services as well as the body of that animal. But we cannot become the owner of a labourer in this sense.

8. **Increase in Wages may reduce the Supply of Labour:** The supply of goods increases, when their prices increase, but the supply of labourers decreases, when their wages are increased. For example, when wages are low, all men, women and children in a labourer's family have to work to earn their livelihood. But when wage rates are increased, the labourer may work alone and his wife and children may stop working. In this way, the increase in wage rates decreases the supply of labourers. Labourers also work for less hours when they are paid more and hence again their supply decreases.

9. **Labour is both the Beginning and the End of Production:** The presence of land and capital alone cannot make production. Production can be started only with the help of labour. It means labour is the beginning of production. Goods are produced to satisfy human wants. When we consume them, production comes to an end. Therefore, labour is both the beginning and the end of production.

10. **Differences in the Efficiency of Labour:** Labourer differs in efficiency. Some labourers are more efficient due to their ability, training and skill, whereas others are less efficient on account of their illiteracy, ignorance, etc.

11. **Indirect Demand for Labour:** The consumer goods like bread, vegetables, fruit, milk, etc. have direct demand as they satisfy our wants directly. But the demand for labourers is not direct, it is indirect. They are demanded so as to produce other goods, which satisfy our wants. So the demand for labourers depends upon the demand for goods which they help to produce. Therefore, the demand for labourers arises because of their productive capacity to produce other goods.

12. **Difficult to find out the Cost of Production of Labour:** We can easily calculate the cost of production of a machine. But it is not easy to calculate the cost of production of a labourer i.e., of an advocate, teacher, doctor, etc. If a person becomes an engineer at the age of twenty, it is difficult to find out the total cost on his education, food, clothes, etc. Therefore, it is difficult to calculate the cost of production of a labourer.

13. **Labour creates Capital:** Capital, which is considered as a separate factor of production is, in fact, the result of the reward for labour. Labour earns wealth by way of production. We know that capital is that portion of wealth which is used to earn income. Therefore, capital is formulated and accumulated by labour. It is evident that labour is more important in the process of production than capital because capital is the result of the working of labour.

14. **Labour is an Active Factor of Production:** Land and capital are considered as the passive factors of production, because they alone cannot start the production process. Production from land and capital starts only when a man makes efforts. Production begins with the active participation of man. Therefore, labour is an active factor of production.

DIVISION/SPECIALIZATION OF LABOUR

This refers to a division of work into a number of separate processes. Each process is performed by a single person or a group of persons. For example a work of producing office pins, in this type of production division of labour will be as follows:

1. process-1 man-drawing the wire
2. process-2 man-straightening the wire
3. process-3 man-cutting the wire into piece.
4. process-4 man-sharpening the ends.
5. process-5 man-making the heads.
6. process-6 man-whitening the pins.
7. process-7 man-parking the pins

BENEFITS

- **Right Man in the Right Place:** Under division of labour, the chances are that each man will get the job for which he is best fitted. There will be no round pegs in square holes. The work will be better done. On the other hand, just imagine an interchange of work between a farmer and his wife—he doing the cooking, and she ploughing the field. You can guess the result.
- **Improvement in Skill:** Practice makes a man perfect. When a man does a certain work over and over again, he is bound to improve. He will be able to turn out better goods. There is an increase in his skill and dexterity. The worker benefits. He produces better results in less time.
- **Less Strain:** Division of labour makes it possible for heavy work to be passed on to machinery. Only light work is done by men so that there is less strain on their muscles.
- **Less Training Required:** As the worker has to do only a part of the job, he need learn only that much. Long and costly training is rendered unnecessary. The shortening of the period of training for a worker is a great gain. Besides these benefits to labour, there are advantages to the industrial system and to society as a whole from the introduction of division of labour.
- **Inventions:** When a man is doing the same work over and over again, some new ideas are bound to occur. This leads to inventions. These inventions make for economic progress.

- **Introduction of Machinery:** By division of labour, the work is reduced to a few simple movements. Sooner or later, some machinery is brought in to take over these mechanical movements.
- **Cheaper Things:** On account of mass production made possible by division of labour and the use of machinery, cheaper things are turned out. Even poor persons can enjoy them. This is beneficial to society. Standard of living improves.
- **Economy of Tools:** It is not necessary to provide each worker with a complete set of tools. He needs a few tools only for the job he has to do. These tools are kept continuously employed. This proves very economical.
- **Saving in Time:** The worker has no longer to move from one process to another. He is employed on the same process. He, therefore, goes on working without loss of time. Continuity in work means more production.
- **Rise of Entrepreneurs:** As work is divided, somebody is needed to co-ordinate the work. This leads to the rise of entrepreneurs who specialise in the work of organisation. This has contributed to the productive efficiency of the community and economic progress.

DEMERITS

Division of labour has proved harmful to the individual workers in certain ways:

- **Monotony:** Doing the same work over and over again without any change produces mental fatigue. Work becomes irksome and monotonous there is no pleasure in the job. The worker cannot be expected to take any interest. The quality of work must suffer.
- **Kills Creative Instinct:** Since many men contribute to the making of an article, none can claim the credit of making it. Man's creative instinct is not satisfied. The work gives him no pride and no pleasure, since no worker can claim the product as his own creation.
- **Loss of Skill:** The worker deteriorates in technical skill: Instead of making the whole article, the worker is required just to repeat a few simple movements. The skill with which the artisan once made the artistic products gradually dies out. He simply becomes a machine tender. The weaver of Dacca muslin fame is gone.
- **Loses Mobility:** The worker is doing only a part of the job. He knows only that much, and no more. It may not be easy for him to find exactly the same job elsewhere, if he desires a change. In this way, the worker loses mobility.

- **Risk of Unemployment:** If the worker is dismissed from one factory, he may have to search far and wide before he secures a job in which he has specialized. He may be making only legs of a chair. It is doubtful if he can get the same job elsewhere. On the other hand, if he knew how to make the complete chair, his chance of getting a job elsewhere would be brighter.
- **Checks Development of Personality:** It is said that if a man has been making an eighteenth part of a pin, he becomes eighteenth part of a man. A man grows in body and mind to the extent that his faculties are exercised in his job. A narrow sphere of work must check proper physical and mental development of the worker. His outlook is cramped and initiative killed, and he is reduced to the level of a machine.
- **Loss of Sense of Responsibility:** None can be held responsible for bad production because none makes the whole article. When the result is bad, everybody tries to shift the responsibility to somebody else. This adds to the difficulties of administration. Besides proving detrimental to the worker, the system of division of labour has produced many social evils.
- **Evils of Factory System:** Division of labour gives rise to the factory system which is full of evils. It spoils the beauty of the place.

Different Types of Costs of Production

Explain the different types of costs of production

COSTS OF PRODUCTION.

This is the money used to buy the factors of production. Meaning that it is the expense incurred in running a business or producing a commodity. Also the cost of production includes the opportunity cost of producing a commodity. It means foregone benefits which the business could get by using its resources in the production of other commodities. All cost associated with production is known as cost of production

The costs of production are divided into two categories:

IMPLICIT COST (OPPORTUNITY COST)

These are the benefits/gains sacrificed by a firm by not engaging in the production of other commodities. It means a firm, when employing its resources in the production of a particular commodity; it sacrifices other benefits that it could hence obtain by employing the same resources in the production of other commodities.

EXPLICIT (DIRECT COST)

This is the money that is actually used in buying the factors of production.

Cost of production=implicit cost+explicit cost

TYPES OF EXPLICIT COST

- Variable cost
- Fixed cost

Variable cost: these are cost which varies according level of production.e.g cost of raw materials, labour etc

Fixed cost/supplementary cost/overhead cost: These are cost which do not change with production.e.g rent, insurance etc

How Division of Labour and Specialization Affect Production

Explain how division of labour and specialization affect production

FORMS/TYPES OF DIVISION OF LABOUR.

Division of labour can be divided into the following types:

1. Division of labour by process-this is a type of division of labour where by a worker is divided into separate process each of the process is performed by different persons.
2. Division of labour by sex-this is a type of division of labour where by work is done by people according to their sex.
3. Division of labour by age-this is a type of labour where by the work is being done by people by people according to age of person.
4. Division of labour by territory/country-this is where by countries specialize in production of certain commodity.
5. Division of labour by product/region-this is where by different regions of a country has specialized in the production of various commodities.

6. Division of labour by profession-this is where by people do work depending on their professional or type of skills they have.

LIMITATION OF DIVISION OF LABOUR

- Small extent of the market-when the extent of the market is small, division of labour will be meaningless because division of labour leads to an increase in output which needs a large extent of the market.
- Poor exchange and distribution facilities-production is for exchange; if exchange facilities such as banking and transport are weak, and then exchange of large output resulting from division of labour will be ineffective.
- Nature of goods and services: some goods or services by their nature cannot be produced by division of labour.for example, shoe shining, hair dressing etc
- Size of labour force and capital: an entrepreneur faced with limited number of labour force will face difficulties in dividing his/her work into many separate processes.

c) CAPITAL-is any wealth that is used to produce other wealth. Capital includes all types of producer goods. Example: machinery, money.

Characteristics of Capital:

Capital has its own peculiarities which distinguish it from other factors of production. Capital possesses the following main characteristics:

1. **Man Produces Capital:** Capital is that wealth which is used in the production of goods. Capital is the result of human labour. Thus, every type of capital such as roads, machines, buildings and factories etc. are produced by man. It is a produced factor of production.
2. **Capital is a Passive Factor of Production:** Capital cannot produce without the help of the active services of labour. To produce with machines, labour is required. Thus, labour is an active, whereas capital is a passive factor of production. Capital on its own cannot produce anything until labour works on it.

3. **Capital is a Produced Means of Production:** The composition or supply of capital is not automatic, but it is produced with the joint efforts of labour and land. Therefore, capital is a produced means of production.
4. **Capital is Variable:** The total supply of land cannot be changed, whereas the supply of capital can be increased or decreased. If the residents of a country produce more or save more from their income, and these savings are invested in factories or capital goods, it increases the supply of capital.
5. **Capital is more Mobile than other Factors of Production:** Of all the factors of production, capital is the most mobile. Land is perfectly immobile. Labour and entrepreneur also lack mobility. Capital can be easily transported from one place to another.
6. **Capital Depreciates:** As we go on using capital, the value of capital goes on depreciating. When machines are used continuously for some time, these depreciate and their value falls.
7. **Capital is Stored-up Labour:** Scholars like Marx admit that capital is stored-up labour. By putting in his labour man earns wealth. A part of this wealth is spent on consumption goods and the rest of it is saved. When saving is invested, it becomes capital. In other words, capital is the result of accumulation of savings of a man. Therefore, capital is stored-up labour.
8. **Capital is Destructible:** All capital goods are destructible and are not permanent. Because of the continuous use, machines and tools become useless with the passage of time.

Types of capital

Public and private capital (social capital)

- **Private capital:** All the physical assets (other than land), as well as investments, which bring income to an individual are called private capital.
- **Social capital:** All the assets owned by a community as a whole in the form of non-commercial assets are called social capital e.g. roads, public parks, hospitals, etc

Fixed capital and circulating capital.

- **Fixed capital:** It refers to durable capital goods which are used in production again and again till they wear out. Machinery, tools, means of transport, factory building, etc are fixed

capital. Fixed capital does not mean fixed in location. Since the money invested in such capital goods is fixed for a long period, it is called Fixed Capital.

- **Circulating capital:** this is the type or form of capital used in the running of the day to day production activities or in running a business. For example raw materials, fuels and money.

The reward of capital is INTEREST

d) Entrepreneurship/organization.

An entrepreneur is the owner of a business. It is a factor of production, which organizes other factors of production in the production process, and establishes a business.

Functions of entrepreneur.

An entrepreneur has the following functions;

- To start the business-an entrepreneur is responsible for starting the business.
- To employ and organize other factors of production in the production process.
- To forecast the demand for the products by doing market research for those product; that is, finding whether the commodities would be demanded by the customer or not.
- Entrepreneur bears the risks of the business.Hence, responsible for all the risks that cannot be insured. For example, the risk of a fall in the demand for the commodity and decline in the profit of the business. When the business makes profit, it would be rewarded to the entrepreneur, and if the business incurs loss,it has to be borne by the entrepreneur.

The reward of entrepreneurship is PROFIT OR LOSS.

Importance of Production

Discuss the importance of production

IMPORTANCE OF PRODUCTION

- Satisfaction of human wants and needs: Human wants refers to all the human desires or things that must be satisfied by using certain needs. Examples of wants such as hunger, thirst,

education and health. Human needs are the goods and services which are used to satisfy human wants. Examples of human needs are foods, shelter, books, electricity etc

- Increase the welfare of the people: goods and services which are produced are aimed at improving the welfare of the people. The welfare of the people increases as they consume more goods and services. The capacity to consume more goods and services is a result of the improvement in the income generated from their production activities.
- Increase the size of wealth of both personal and national income.
- Creation of employment: production creates employment to various factors of production which are engaged in the production process.

Production in its Branches and Main Occupations

Classify production in its branches and main occupations

BRANCHES OF PRODUCTION AND OCCUPATION

INDUSTRIES. This is concerned with extraction of natural resources and changes their form so that they can be used by people. Industries are classified into three categories according to the different stages of production in which they are involved.

- **Extractive industries:** this deals with natural resources such as farming, hunting, lumbering, fishing, mining etc
- **Constructive industries;** these are industries that assemble manufactured goods into finished goods. e.g assembly furniture. Construction of roads, bridges, house etc
- **Manufacturing industries;** these involve changing of raw materials into finished goods by using machine or hand. e.g cotton printing, cigarette making, pot making etc

DIRECT SERVICES: these provide services directly to the consumer. For example doctor, lawyer, hotel etc.

COMMERCE: Involves trade and aids to trade.

Exercise 1

QUIZ

1. What is the difference between production and commerce?
2. What commercial activities do you see being carried out in your own area?
3. Discuss the factors of production and their characteristics.

Relationships between Production Branches