

CHAPTER ONE- NATURE OF BUSINESS

What is business studies?

It is the subject that involves with the study of all activities that help to transfer a product, be it goods or services from one person to the other. Or Business studies is the study of how businesses are created, how they operate

Explain the importance of business studies.

1. It facilitates the exchange of goods and services.
2. It reduces the rate of unemployment.
3. It improves standard of living.
4. It improves the balance of payment and trade where exports are more than imports.
5. It creates some relations with other people and countries.
6. It also lessens the burden of travel and communication that help trade.

Explain the importance of studying business studies to you as a student.

1. It helps you to know the type of business you may start 57,000 completing - your studies.
2. It helps you to know how you can successfully, manage your business.
3. It helps you to understand how a business gets finance for its operations.
4. It instils in you entrepreneurial knowledge and the desire to get involved in self-employment.
5. It helps you to know and understand the economic environment in which a business operates.

Explain the contribution of businesses to the national economy of Malawi.

- a. They provide basic products and services needed by the society.
- b. They provide basic services needed by the society such as transportation, maize milling etc.
- c. They provide employment for the business owners and the people they employ.
- d. They pay taxes to the government thereby contributing to country's revenue.
- e. They contribute to the economic growth of the country through exports

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where Malawians sell their products to outside countries.

Explain the sources of money to start the business.

- a. **Use of own properties and Resources**- This means that the owner can sell some of his personal resources to invest into the business.
- b. **Family and friends**- The person starting business may obtain resources from friends of family members.
- c. **Loans from banks or lenders** – this means some banks that are taking banking and lending to small businesses so that they can form groups and obtain money them in the form of loans to establish their businesses. In other words, a trader can obtain funds to start up a business from various microfinance companies
- d. **Grants or donations**- These free gifts which business owners can receive from the government or other organizations.

BUSINESS OBJECTIVES AND CLASSIFICATION

Define the term objective.

It is the purpose or aim of the business to achieve after a specified time period.

Explain the importance of objectives to a business.

Objectives are important because they give a direction to the business owners and workers of where the business must go.

State and explain four business objectives.

1. **Profit making**- businesses are created to make profits for the owners
2. **Business growth**- Most business entities desire to grow in the sales they make.
3. **Business survival**- when a business is just starting, its main objective may be to survive cash problems or the economy that is in bad shape./
- 4.
5. **Public service** – some business organisations are concerned with providing a service to the general public.

Explain five qualities of good objectives of the business.

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1. **Specific**- It should specify what exactly the business wants to achieve.
2. **Measurable** – It must be measured so that the business owners and workers should be able to check whether it has been achieved or not.
3. **Attainable** – It is supposed to be set within levels which the business can achieve or attain in normal operations.
4. **Result focused**- It is expected to focus on the results or final outcome and not the activities by which the objectives are achieved.
5. **Time bound**- It must give a time frame within which the goal must be achieved.

Define the term stakeholder.

A stakeholder is an individual or group of individuals having an interest in the performance or affairs of the business or organisations.

List any five stakeholders of a business and explain the objective of each of them.

| stakeholder | Objective/interest |
|----------------------------|---|
| Owners/shareholders | They want to see the business maximizing profits. |
| Managers | They want the company performing well ad owning shares in the organisation. |
| Employees | They want to see the business making profits to have wage/salaries' increment They also want safety and job security |
| Customers | They want the business continue prodding them with supplies or services. |
| Suppliers | They want the business surviving so that they continue doing business with the organization. Is helps you to understand It helps t you o y know how |

What is a shareholder?

A shareholder is an individual who owns a company by buying some shares in it.

What do you understand by conflicting objectives?

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These are objectives of the stakeholders that oppose each other.

Explain the conflicting objectives the following stakeholders

| Other stakeholders | owners |
|---------------------------------------|----------------------------------|
| Employees and managers want more pay | Owners want to reduce costs |
| Customers want low prices | Owners want to make more profits |
| Suppliers want to be paid on time | Owners want to delay payment. |
| Customers want a high quality product | Owner want to reduce costs |

Outline the three major types of business activities.

| Sector | Definition |
|----------------------|---|
| Primary sector | This is a sector which is involved in the extraction and exploitation of natural resources available on earth such as agriculture, fishing, and mining. |
| The Secondary Sector | This is a sector for all businesses involved in the manufacture of tangible products using the raw materials which are produced by the primary sector. It facilitates the business growth and development. |
| The Tertiary | This is a sector for all businesses involved in the provision of services to consumers and other sectors of the industries. It includes commerce, finance, insurance, marketing, transport workers and direct services such as doctors. |

What is the difference between public sector and private sector?

The public sector of the economy is the sector in which organizations are owned and controlled by the state/government on behalf of its people while private sector is the sector in which organizations or businesses are owned and controlled by an independent individual.

What is the difference between privatization and nationalization?

Privatization is defined as the sale of state-owned businesses or organizations such as public corporations to the private sector to be owned and run by

private independent individual while Nationalization is the changing of privately owned businesses into a public businesses owned by the government on behalf of its people.

CHAPTER TWO TRADE AND AIDS TO TRADE

What is trade?

It is the practice of buying and selling goods or services in exchange for money or money's worth.

Explain five purposes of trade or explain five reasons why trade is important to a nation like Malawi.

- a. It helps individuals and organizations to get the required gods and services
- b. It helps to improve the wealth at household level
- c. It helps in economic growth of the country
- d. It helps to allocate resources or wealth evenly across the country
- e. It helps in adding value to the basic products and services.
- f. It helps to improves Malawi's balance of trade and payment.
- g. It contributes to low levels of unemployment since other people get employment in shops.

What is home trade?

It is the buying and selling of goods and services taking place within the country.

Explain two types of home trade.

- a. **Wholesale trade** – wholesale trade is the trade that deals with the bulk buying of goods from various manufacturers and the breaking down of this bulk into smaller quantities which is then sold to the retailer. Wholesale trader acts as a distributor for the manufacturer or producer of the products.
- b. **Retail trade**- Retail trade is the trade that deals with the buying of goods in small quantities from the wholesaler and selling of the goods in further smaller quantities to the final consumer. A retailer acts as a distributor for the wholesaler.

Explain five functions of the wholesaler.

- a. Buying in bulk from different producers
- b. Looking for a good source of supply
- c. Bearing the risk or loss, if the products are damaged.
- d. Warehousing the goods
- e. Transporting goods from the producer to warehouse and from the warehouse to the retailer.
- f. Bulk breaking- reducing the goods into small quantities to sell to the retailers.
- g. Linking the producer and his market.
- h. Providing technical help to small scale retailers.

Explain the meaning of the following types of wholesalers.

- a. **Primary wholesalers-** these specialize in collecting together fairly small quantities from suppliers and selling them in bulk to secondary wholesalers.
- b. **Secondary wholesalers-** These are the ones that sell to retailers.
- c. **General wholesalers** – These deal in a wide range or variety of non perishable goods.
- d. **Specialist wholesalers-** these deal in a narrow or specific range of goods.
- e. **National wholesalers** – These operate on a nationwide basis.
- f. **Regional wholesalers** – These operate in a certain region of a country.
- g. **Local wholesalers** – These supply to retailers in a particular town or country side.
- h. **Cash and carry wholesalers-** These enable retailers to buy at low prices and trade is confined to low priced and quick selling of goods such as household items.

Explain five functions of the retailer.

- 1. Looking for good source of supply
- 2. Further bulk breaking and selling in smaller quantities.
- 3. Selling to the end consumer
- 4. Might be involved in branding and packing the product on behalf of the producer.
- 5. Might provide home delivery

6. Informing the wholesaler or producer about the reaction of the market towards a certain product.
7. Displaying the products to the customers.

Explain the following types of retailers.

Multiple shops

These are always operated by large companies, and the distinguishing feature is that they have numerous branches. They usually trade under the same style – making them easily recognizable e.g. a Peoples shop in one town will be similar to one in any other town. All the branches are directed from the centre. Although each branch has a manager, all the buying is done at the Head Office (giving advantage of bulk buying). Normally these shops sell a narrow range of goods by efficient controlled and standardized methods.

Departmental stores

These are like many shops under one roof (and the same ownership). The aim of such stores is to provide a complete range of shopping service under one roof. To induce the customer to make as many purchases as possible within the store, shopping is made as pleasant as possible. Services such as restaurants and hair dressing saloons are often available on the premises. Departmental stores have departments specializing in a particular line of commodities. Each department is under the control of a buyer or manager responsible for making the department profitable.

Most departmental stores are often part of multiple shops.

Supermarkets

A supermarket is generally defined as a self-service shop with at least 186m² of floor space. Many of them may be regarded as multiple shops as well. For they operate on a wide scale. They concentrate on food and household goods and only stock goods which they know they can buy in bulk and sell quickly.

Superstores and hyper stores

- **Superstores** - have at least 2500m² of selling space and **Hyperstores** -

- these normally have over $5000m^2$ of selling space
- Both superstores and hyperstores tend to rely on self-service and sell wide range of food and non-food items. They are mainly in urban areas.

Mail order businesses- They are run by manufacturers or owners of departmental stores. They only require one office and a large warehouse. These advertise extensively in newspapers and printed catalogue.

Explain the advantages and disadvantages large retailing.

Advantages

1. High volume of sales
2. Economies of scales
3. Low competition due to high capital requirement
4. Business can save transportation cost
5. Business can get discount for buying in bulk.
6. Variety of products is available to customers.
7. Customers benefit from one stop shopping
8. Customers have freedom of choice since the items are displayed clearly.

Disadvantages

1. High capital requirements
2. High fixed costs in large expenses
3. Greater risk of stock damage and stock theft.
4. Businesses may not be conveniently located
5. Do not provide home delivery
6. Do not offer credit facilities
7. Shop lifting is common.

Explain the advantages and disadvantages of small retailing.

Advantages

1. Provide personal service to customers
2. Provide a convenient source of supply.
3. Can sell in very small quantities if required
4. Often trade for long and irregular hours.

Disadvantages

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1. Holds small quantities of stock
2. Limited variety of products.
3. Costs and prices tend to be high
4. Run short of capital and progress is hindered.

AIDS TO TRADE

What is the meaning to Aids to Trade?

These are services or facilities which are required to facilitate trade.

Explain the function of the following aids to trade.

| | |
|----------------------|--|
| Banking | Provides finance and financial services to business |
| Transport | Helps the movement of goods from one place to place |
| Communication | Helps to transits and receive information quickly |
| Insurance | Absorbs some of the risks in production and trade on behalf of the business or provides insurance cover. |
| Warehousing | Helps to provide storage facilities |
| advertising | Helps to inform customers about products and services. |

COMMUNICATION

What is communication?

It is the transfer of information in the form of an understandable message through a channel from a sender to the recipients or receivers.

What are three key elements of communication?

1. **The sender** –The one who wants to communicate or he/she sends messages to other people.
2. **The medium**- The method that the sender uses to send the message to the other people.
3. **The receiver** – The one who receives the message which was sent by the sender.

Explain five reasons why communication is important in business. Or state five purposes of communication in business.

1. It facilitates exchange of business documents in trade
2. It minimizes confusion and misunderstanding between buyer and seller.

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3. It ensures better business control as it helps managers to get all required information which helps in planning the operations.
4. It enables business to get reliable and cheap information about their markets.
5. When it is efficient, it makes international trading possible as international traders need to communicate frequently.
6. It helps to improve banking services as banking system depends on communication where two or more banks can share important information.

Explain two types/modes of communication.

1. **Verbal/oral communication** – Verbal communication can be through face to face or through telephone conversation.
2. **Written communication**- Written communication can be through postal mail, fax, internet, newspaper or magazines, SMS etc.

State the advantages and disadvantages of the two modes of communication.

| Verbal communication | |
|--|---|
| Advantages | Disadvantages |
| 1. It is quickly delivered 2. It is very cheap 3. Facial expression can be seen | 1. Messages can be distorted 2. No proof of record, rely on memory |
| Written communication | |
| Advantages | Disadvantages |
| 1. Records can be made and kept safely 2. Sometimes cheap in case of SMS or internet 3. Few chances of message being distorted | 1. Sometimes can be expensive 2. Useful only for literate people 3. Not very quick in case of newspapers and magazines |

Explain two main types of communication services that is available to facilitate business activities.

1. **Postal services**- These are used by businesses and individuals to transfer

and receive written information or money or physical material.

Examples of postal services include

- a. Ordinary mail
- b. Registered mail
- c. Express mail
- d. Air mail
- e. Parcel service

2. Telecommunication services – These are used by the businesses and individuals to transfer and receive written or oral information electronically.

Examples of telecommunication services include

a. Telephone

Advantage

- It is cheap way of communication
- It is available
- It covers a wide area
- It is fast

Disadvantage

- It does not allow facial expressions to be seen
- It involves only two people at a time
- It keeps no record of the information sent or received

b. Mobile phones

Advantages

- It can be carried anywhere
- Provide SMS (Short Messaging Service), MMS and internet facilities unlike telephone

Disadvantages

- a. Information can be distorted in case of weaker signals
- b. They need batteries to operate.

c. Faxes

It is used to send written communication and it requires special equipment at both ends

Advantages

- It gives confirmation of communication
- It is fast
- It sends the exact copy of what the sender sent
- It keeps a record of the information.

Disadvantages

It is expensive to acquire and operate.

d. Internet

This is a network that links computer networks all over the world by satellite and telephone, connecting users with service networks such as e-mail and World Wide Web (www).

Advantages

- Banking is becoming efficient because of the coming in of internet.
- International trade has increased
- It is a cheap source of information

e. Intranet

This is a network of computers especially one using World Wide Web (www) accessible only to authorized users such as those within a company.

Disadvantage

It involves high capital cost

. Teleconferencing

This is a service where a group of people can have conversation through a telephone line at the same time.

Advantages

- It saves time and money on meetings

Disadvantages

It requires special equipment and facial expressions cannot be seen.

Videoconferencing

This is where the people see each other through video screens which are connected to internet facility.

Advantage is that facial expressions can be seen thereby enhancing the delivery and receiving of information.

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Explain five postal services in Malawi. For each state the advantages and disadvantages.

1. Ordinal mail

This service is used to send and receive letters.

| Advantages | Disadvantages |
|--|---|
| a. Cheap to send mail b. Record of information can be kept c. Wide coverage since post offices are over the country | a. Slow b. Misplacement of letter can occur c. Can only be used by literate people |

2. Registered mail

This service is used for sending and receiving sensitive information or expensive material

| Advantages | Disadvantages |
|---|--|
| a. Wide coverage b. Track record of delivery of letter c. Compensation in case of loss of mail | a. Relatively expensive than ordinary mail b. Slow c. Useful only for literate people |

3. Express mail

This service is used to send documents in urgency and it can be available on the request of either sender or receiver.

| advantage | Disadvantage |
|--|------------------------------------|
| It is fast compared to ordinary and registered mail services | It requires extra money to be paid |

4. Air mail

This service is used when documents/letters are to be sent outside the country.

| Advantage | Disadvantage |
|----------------------------------|---|
| It is speedy for longer distance | It requires the sender to pay extra costs |

5. Parcel Service

This service is used for sending and receiving cargo of small size or weight.

Advantage

The sender pays the cost on the basis of distance and weight.

Explain the factors that are considered by the business when deciding which method of communication.

- a. **Cost** – some methods of communication are expensive for example, video conferencing and others are cheap for example ordinary mail.
- b. **Speed** - if the message to be delivered is urgent, then the use of the internet, fax or phone would assist.
- c. **Accuracy of information**- there is need to choose the method that will not distort the information.
- d. **Availability** –there is need to choose the method that is readily available as compared to others.
- e. **Nature of information** – If the information to be transferred is secretively or intelligent in nature, it is not proper to use telephone or mobile phone.
- f. **Distance**- it is proper for the business to use phone or fax rather than ordinary phone if the distance between the two communicating parties is far apart.

INSURANCE

What is insurance?

Insurance is a promise by one person or business to make compensation to other person/business against its financial losses as a result of a certain specific reason.

State the reasons why insurance is important to businesses.

1. It gives confidence and peace of mind to the person/business.
2. Insurance can be obtained as a measure of saving for a certain future plan.
3. It is a form of investment
4. It can give financial protection

Explain the meanings of the following terms used in insurance.

- **Insurer**- This refers to the insurance company that provides protection to the insured in return for the premium that he pays to the insurer. In other

words, insurer is the insurance company that provides insurance policies.

- **Insured-** this refers to the customer seeking protection against financial loss from insurable risks from the insurer. In other words, insured is the client/business that buys insurance policies.
- **Insurance policy document-** This is a document that indicates an agreement between the insured and the insurance company stating the premium to be paid and the sum of money the insurance company promises to compensate the insured in time of need.
- **Insurance policy-** this refers to the agreement or insurance contract and its details.
- **Premium-** It refers to the fixed sum of money that the insured is required to pay to the insurance company so as to service the insurance policy to make it valid.
In other words, premiums refer to periodic or annual payments that the insured pays to the insurance company.
- **Proposal form-** It refers to the document on which written information about the insured is collected and the calculation of premium is based on the data contained on it.
- **Cover note-** It is a temporary document which is given to the insured and it acts a proof of insurance before insurance policy is issued.
- **Risks-** Risks are basically dangers or misfortunes that occur in the course of running the business.
- **Claim form-** It is a written document which has to be submitted by the beneficiary to the insurer to get the payment against the financial loss.
- Sum insured
- **Accessor/actuaries-** It is somebody employed by an insurance company to assess risks and fix premiums.
- **Insurance brokers/underwriters-** these are agents who sell insurance policies on behalf of insurance companies they are working for. They guide clients on polices that benefit them. They travel short and long distances in search for clients.

Explain the following principles and doctrines of insurance.

1. **Insurable interest** – This states that insurance cannot be given to somebody who does not have interest in what is being insured or cannot suffer any financial loss if the loss that is insured against happens.
2. **Utmost Good Faith (Uberrima Fide)** – This states that each party to the insurance contract should not conceal or hide information from each other, and failure to disclose important information makes the contract useless.
3. **Indemnity/compensation-** This states that the purpose of insurance is to restore a person to the position he or she was before the loss. For example, if your five year old car is damaged beyond repair, the insurer will give the money from which you would be able to buy the car of the same model which is five years old, instead of making payment from which you can buy a new car.
4. **Contribution** – This states that if the insured tries to obtain insurance cover against the same risk from different insurers, all the insurers will contribute to the loss. For example, if a vehicle is insured against risk of accident by Smile Life Insurance and NICO insurance at the same time, then in the case of the accident, the two insurance companies will contribute towards the compensation.
5. **Subrogation** – This doctrine states that once the insurer has made the payment of the claim to the beneficiary, the wreckage or damaged item belongs to the insurance company. The guiding principle is that the insured is not supposed to make any profit but simply to be compensated for the loss.

Explain what is meant by the following types of insurance:

1. **Fire insurance**- this insurance policy provides cover for losses of property due to fire and explosions.
2. **Motor insurance** – This policy covers for losses which may occur on the motor vehicles.
3. **Accident insurance**- This policy covers the losses which arise from temporary or permanent disability of persons from accidents, damage of

vehicle or machinery through burglary or vandalisms, loss of cash in transit through robbery as well as injuries suffered by employees while at work.

4. **Life insurance** – This policy applies in situations of death of the insured
5. **Liability insurance** – This policy covers for accidents or losses in employer liability, public liability, professional liabilities and fidelity bond or fidelity guarantee.
6. **Marine insurance** – This policy provides cover for risks or losses connected with the sea or sea transport.
7. **Aviation insurance** – This policy covers for losses arising from the fault of the owner of the ship or his employee.

Explain the following policies under motor insurance.

- a. **Minimum legal cover**- Under this policy, the insurer pays for injuries made to third parties (for example a pedestrian hit by the car) on public roads only.
- b. **Third party cover**- Under this policy, the insurer pays for injuries and damages to properties of third parties. A third party is any person other than the insurer and the insured.
- c. **Comprehensive cover** – Under this policy the insurer pays for injuries and damages to third parties as well as damage to the vehicle, personal injuries to driver, or damage of personal possessions while in the car.

Explain four types of liability insurance.

- a. **Employer liability**- This policy covers losses due to employer's negligence or carelessness.
- b. **Public liability** – This policy covers losses claimed by the public as a result of damage to their property or life.
- c. **Professional liabilities**- This policy is mostly taken by lawyers, doctors, architects, accountants and engineers to cover against claims due to their personal negligence
- d. **Fidelity bond or fidelity guarantee**- This is the guarantee taken by the employer to cover embezzlement or theft of funds by employees.

State and explain four policies under life insurance.

- a. **Whole life policy** – This is the policy where a payment is provided on the death of the insured person to his or her beneficiaries.
- b. **Term policies**- This is where a beneficiary gets a payment only if death occurs during a specified period. For example, Mr. HMC gets an insurance cover that if he dies within the six months he will be in Mali on national duty, his wife and children should receive a certain amount of money.
- c. **Endowment policies** – This is policy where an agreed sum is paid at the end of a number of years on the maturity of the policy, or on the death of the insured person, whichever comes earlier.
- d. **Mortgage payment** – This is where if the individual dies while servicing a mortgage, the insurance company pays for the mortgage. A mortgage is a form of a loan which is obtained to acquire property and takes long to be repaid.

Explain the following polices under marine insurance.

- a. **Hull insurance**- This policy covers for the loss at the sea of the vessel/ship itself including all its fixtures.
- b. **Cargo insurance**- This policy covers for the loss of cargo/luggage while it is in transit (in movement) on the sea.
- c. **Ship owner's liability** – This policy covers for losses arising from the fault of the owner of the ship or his employee.

Describe two main middlemen in insurance services.

- a. **Insurance broker**- It is an independent organization that is always in contact with a number of insurance companies and provides guidance and direction to prospective and existing insured individuals.
The main task of the insurance broker is to bring the seller and the buyer of insurance services together.
It also provides risk management advice to the insured by directing the insured businesses on how to reduce the possibilities of losses and injuries.
- b. **Insurance agents**- This not an independent organization but instead works on behalf of the insurer to sell insurance policies to businesses and they receive a commission on any policy they sell. Insurance agents do not

provide advice.

What is the difference between insurance broker and insurance underwriters?

- a. **Insurance broker-** It is an independent organization that is always in contact with a number of insurance companies and provides guidance and direction to prospective and existing insured individuals. The main task of the insurance broker is to bring the seller and the buyer of insurance services together. It also provides risk management advice to the insured by directing the insured businesses on how to reduce the possibilities of losses and injuries.
- b. **Insurance underwriter-** An insurance underwriter is a form of an insurance agent who gives a guarantee or commitment to the insurance company that in case the customers will not be able to buy or pay for the policies agreed, he will buy or pay for them completely.

Describe how insurance companies operate.

1. Buyer of insurance will contact the insurer for covering a certain risk.
2. Insurer will appoint a surveyor who will check the insured and get necessary information on the proposal form.
3. On the basis of information collected on the proposal form, the insurer will calculate the premium.
4. Buyer will pay the premium and will get the premium receipt and cover note from the insurer.
5. After a few days insurance policy is issued.
6. After the accident or the occurrence of an event which was covered, the insured or beneficiary will contact the insurer and the policy department.
7. The insurer will appoint a surveyor who will contact the insured or beneficiary and give him/her a claim form.
8. The insured/beneficiary will fill in the claim form and provide all relevant documentary evidence of the event or accident.
9. If the surveyor and police department find out correctness of the claim, payment will be made to the beneficiary.

ADVERTISING

What is advertising?

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Advertising is defined as a form of communication that typically tries to persuade potential customers to purchase or to consume more of a particular brand of product or service.

Explain five aims of advertising.

1. To increase sales of business's products or services.
2. To introduce new products or services thereby making people aware of the existence of such products.to keep the brand name of the branded goods in the minds of the public.
3. To improve company's image to the public.
4. To challenge competition or to outperform competition on the market.
5. To educate users and buyers on certain issues about a particular product or services.
6. To recruit new customers entering the market for the first time.

Explain three purposes of advertising.

- a. To inform the public when a new product is introduced.
- b. To persuade the people to buy a product of a particular brand and not the other.
- c. To remind the people of existing products and to draw attraction of customers.

Explain following types of advertising

- a. **Persuasive/argumentative advertising**- This involves telling people that a particular brand is superior to all other brands from competitors by skillfully changing the people's mindset to look at your brand as indeed better without actually talking bad about other products.
- b. **Informative advertising**- This involves informing the public of a new product or services, events or employment opportunities.
- c. **Generic or collective advertising**- This involves advertising a product or services and not a particular brand. Generic advertising is financed by all the producers of the product.

Explain the following advertising media/forms. Hence state their advantages and disadvantages.

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| 1. Newspapers | |
|---|---|
| Advantages | Disadvantages |
| a. They cover a wide area b. Daily circulation/release c. Low cost but many readers | a. Reach only literate people b. No sound or picture to help message delivery c. The paper may be of poor quality hence the advert may not be seen d. The advert may be submerged in a large number of other adverts and hence may not be visible. |
| 2. Radio | |
| Advantages | Disadvantages |
| a. Covers a wide area b. Provides sound which helps the message to be received well c. Can reach illiterate people d. The advert may be targeted towards a required audience e. Low cost but many listeners. | a. No visuals or pictures b. The message can be easily forgotten |
| 3. Television | |
| Advantages | Disadvantages |
| a. Provides Audio/sound and visual/picture impact. b. Covers a wide area | a. Not sure whether people get the message or simply watch the television b. Quite expensive to advertise on television |
| 4. Poster | |
| Advantages | Disadvantages |
| a. Can be placed anywhere b. Cheapest means of advertising | a. Rely on visual effect, no sound impact |

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| | |
|------------------------------------|---|
| c. Act as reminders and informers. | b. Require a lot of paper to be used c. The literate |
|------------------------------------|---|

5. Direct mail

| Advantages | Advantages |
|--|--|
| a. Flexible b. Targets can easily be selected by occupation c. Can be personalized | a. High cost b. Consumers may resist the personalized |

Window and point of sale display

| Advantages | Disadvantages |
|---|--|
| a. Customers can directly see the products physically b. Low cost | a. Not all people targeted can reach the shop and cannot know of the products offered b. Only limited information is available |

Explain the following six methods of advertising.

a. Packaging

- It involves covering the products for protection on their way from the factory to the customer.
- The covers are decorated in the way that they can attract the customer even from far to buy it.

b. Branding

This involves putting signs, symbols or design or combination of both on the products.

Branding the products intends to identify the goods or services of one seller or group of sellers.

Branding the products assist to differentiate the products from those of competitors.

c. Labelling

This involves putting a label on the product on which is printed information concerning the product or distributor, composition of the product or

methods of using the product.

The main use of labeling is to assist consumers to identify the product with ease.

d. After sales service

It is the provision of service to customers after purchase. It is designed to enhance the level of customer satisfaction and to make the customer feel that he/she has received the best product he/she was expecting.

e. Warranties

It is an agreement that the manufacturer will be responsible for the defects or problems in a product and will replace or repair a product that is found faulty within a given period. It attracts a number of customers.

f. Self service

It is the practice of serving oneself usually when purchasing items. It helps customers to get personally closer to the products or service.

State two advantages of buying branded goods for the consumer.

Branding the products intends to identify the goods or services of one seller or group of sellers.

Branding the products assist to differentiate the products from those of competitors

State two ways consumers are protected when buying package food.

- Packing the products using plastic material is now discouraged because the plastics are not decomposed when disposed and therefore not friendly to the environment.
- Laws have been established to punish businesses for using plastics materials for packaging.

Explain how the following factors would affect the media of advertising to be adopted.

- a. **Nature of the product** -Some products need audio or visual impact to persuade the consumers while others can easily be advertised without any audio or video impact.
- b. **Nature of the audience-/Age of target-** There is need to choose the right

media when advertising the product targeting the age, social and economic status of the targeted audience.

- c. **Geographical location of the target-** If the targeted customers are in one geographical area, a sales promotion activity may be necessary in this case than a newspaper advert which will reach the whole nation.
- d. **Cost of the media-** A television advert is very costly compared to a public road poster.
- e. **Message to be communicated-** A newspaper advert may be ideal for advertising the products.

WAREHOUSING

What is warehousing

It is the storage of goods or products in a place for safe keeping until such a time as they are needed

Explain the reasons why warehousing is important in businesses.

- 1. Provide protection of goods against climatic conditions
- 2. Enables producers to store raw materials for future production.
- 3. Production surplus created can be stored before being finally sold.
- 4. Shortages in the market can be avoided
- 5. International trade is not possible without warehousing
- 6. Traders can keep their cargos in bonded warehouses before they pay the duty.
- 7. Provides place for display of goods

Explain the difference between general warehouse and bonded warehouse.

- a. **A general or ordinary warehousing –** It is the one which can be located anywhere is controlled by the owners of the warehouse who are mostly members of the private sector and stores finished goods or raw materials which can be freely moved in and out.
- b. **A bonded ware house** = It is the one which stores goods which have been imported into the country and which duty has not been paid. They are mostly owned by the private sector but are strictly under the supervision of the customs department of the Malawi Revenue Authority (MRA).

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Bonded warehouses are also different from the ordinary warehouses in that bonded warehouses are located near sea ports, are controlled by the customs authorities, stores the goods which need a payment of duty, and goods cannot be removed until the duty is paid.

Briefly explain the functions of the following examples of general warehouses.

| Example of General Warehouse | Function |
|------------------------------|---|
| Retailers warehouse/depot | Used to store bulk purchases of finished goods for a wholesaler or raw material for a producer. |
| Wholesalers warehouse | Used for blending, grading, packing and branding storage of goods from variety of manufacturers |
| Cash and Carry Warehouse | Used where retailers can buy in small quantities |
| Cold storage | They are special warehouses with refrigerating equipment where perishable items can be stored. |
| Regional Distribution Centre | They are located close to a good road network for easy distribution of goods. |
| Manufacturers Warehouse | Located in manufacturer's production houses and are used to keep stock of finished goods and raw materials. They help producers to carry on production when there is shortage of raw materials on the market, and when there is less demand. |

Explain five problems that are associated with warehousing.

- The cost of renting or constructing a warehouse may be high for some businesses.
- Goods are stored in the warehouses may perish or get damaged if they are kept for long.

- c. The cost of maintaining warehouses to ensure the right condition of the goods is high for most businesses.
- d. Goods and commodities stored in the warehouses may become expired by the time they are released to the customers to buy.
- e. Goods kept for long may not be relevant to the customer's taste by the time they are released.

Briefly explain how the following would reduce the warehousing problems.

a. Stock control system

- The goods must be stored in an orderly manner so that any item can be found easily.
- There must be the system for checking the goods as they come into the warehouse and as they are dispatched to know exactly how much of each commodity is remaining in the warehouse.

b. Proper protection of goods

- Goods must be stored in such way that they do not perish or get damaged
- The goods must be protected from theft, fire, dampness

c. Proper distribution of goods

There must be a proper method of dealing with sales to customers or branches so that orders are satisfied quickly and accurately.

CHAPTER THREE- FORMS OF BUSINESS ORGANISATION

SOLE TRADER

What is a sole trader?

It is the business that is set up and owned by a single person

Identify five characteristics/features of sole trader/sole proprietorship.

- a. The business is owned by a single person
- b. Is managed and controlled by the owner
- c. Capital or finance for starting the business is provided by the owner.
- d. It is small business because of little capital invested by the owner.
- e. The business is not a separate legal entity hence has unlimited liability.

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- f. It is easy to set up because only a little capital for such investment.

State four ways how the sole trader finance his business.

- a. Use personal savings
- b. Borrow from friends or family members
- c. Obtain loans from the bank or micro finance institutions.

Identify the advantages and disadvantages of sole proprietorship.

Advantages-

- a. It is easy to establish and dissolves or end up
- b. The owner has all the power to make decisions for the business
- c. All the profits of the business belong to the sole proprietor.
- d. The sole trade is in close contact with his or her customers.

Disadvantages

- a. Limited capital for starting the business
- b. The business usually comes to an end when the owner dies.
- c. The owner have limited knowledge and expertise in running the business
- d. It does not enjoy economies of scale
- e. It has limited liabilities. Unlimited liability means that the sole proprietor will have the responsibility to pay all the debts of the business using his/her own personal resources.
- f. It does not benefit from specialization and division of labour.

What is partnership?

It is a business that is owned by two or more individuals who share profits and losses of the business and are legally responsible of the businesses.

What is partnership deed?

It is a legal document that explains partners' agreement on: How much money each partner will put in start the business; how profits and losses are shared; what each member will have responsibility for and how the partnership will be ended.

Explain what is usually included in a deed of partnership.

- a. How much money each partner will put in start the business;
- b. How profits and losses are shared;

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- c. What each member will have responsibility for
- d. How the partnership will be ended.

Explain three types of partnership.

1. **Ordinary/general partnership** - This is where all partners are actively involved in the management of the business, act on behalf of it and their decisions are legally binding. The partners that are actively involve themselves in the running of the business are called **active partners**,
2. **Anonymous partnership/sleeping**- This is partnership where at least one of the partners is not actively involved in running of the business but simply contribute capital and gets a share of the profit. The partners that does not actively involve themselves in the running of the business affairs but only contributes capital. are called **Sleeping partners**
3. **Limited liability partnership/partnership en-commandite**- This is a partnership where at least one of the partners will not be personally responsible for debts of the partnership

Discuss the advantages and disadvantages of partnership.

Advantages

- a. There are benefits of specialization and division of labour
- b. More capital is easily raised for expansion of the business
- c. Business running skills and expertise are shared and this develops the business
- d. Business risks and losses are shared

Disadvantages

- a. Delay in making decision due to arguments
- b. Unlimited liability unless a partner is limited.
- c. Each partner is responsible for the business debts incurred by another person.
- d. Profits of the business and business control are shared
- e. Disagreements between the partners between the partners may make decision difficult.

CHAPTER FOUR - MONEY AND TRADE

Define barter.

It is a system where people consistently trade their goods and services in exchange for other goods and services.

Explain the advantages of barter system of trade.

- a. It is simple system and not complicated as the monetary system
- b. Goods are produced to meet the needs of the society. There are no problems of over- production or under-production.
- c. Problems of foreign trade such as forex do not exist.
- d. In barter system, the problem of wealth being concentrated in the hands of a few rich people does not exist compared to the monetary system.

Explain the limitations or disadvantages of the barter system of trade.

- a. **No double coincidence of wants-** this is a situation in which each of the two parties in the exchange trade has what the wants. In a barter trade system, not all parties to an exchange have the commodities that each one likes at the same time.
- b. **No common measurement value-**The values of commodities exchanged may not be the same due to lack of proper ways of measuring values.
- c. **No specialization-** In a barter system, specialization is not possible because individuals will have to produce different commodities to exchange with different other commodities.
- d. **Lack of divisibility-** It is not possible to have some goods divided or subdivided into small quantities to have them exchanged.
- e. **No storage of wealth-** In a barter system, there is no proper and convenient way of storing wealth belonging to individuals.
- f. **Transportation problems-** In a barter system, the commodities need to be carried along as the owner searches for an exchange. This makes the trade difficult especially when large commodities are exchanged.

What is money?

Money is defined as a means or medium of exchange.

Explain five functions of money.

- 1. Acts as medium of exchange-** It is generally accepted as a medium of exchange when selling and buying goods or services.
- 2. Acts as a store of value-** With money, the value of the commodities which can be exchanged as stored conveniently and properly.
- 3. Acts as a unit of account- Money is used to measure the worth or value of a commodity in a convenient way.**
- 4. Acts as a standard of deferred payment-** A deferred payment is that which is expected to be paid in future, for example, a credit transaction requires a deferred payment. Money is used to establish the value of the payment which will be made in the future.

Explain three forms of money.

- a. Metallic money**-These are coins made of metals such as gold, silver, bronze etc.
- b. Paper money**- These are currency notes issued by the Reserve Bank of Malawi
Paper money has the following advantages
 - Cheaper to produce than coins
 - Convenient to carry from place to place
 - Easy to store and count
- c. Credit money/bank money**- This is money in the form of bank deposits, cheques etc.

Explain the qualities or characteristics of money.

- 1. Acceptability**- Money must be generally acceptable by all people as a means of exchange.
- 2. Uniformity or homogeneity**- This means that each unit of money should have the same features.
- 3. Divisibility** – This means that money must be divisible into sufficiently small denominations.
- 4. Stable**- This means that money should be able to maintain the quantity of commodities it can buy for a reasonable period of time.
- 5. Scarcity** – Money must have a certain degree of scarcity, that is, money

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must not be found every whereby everyone without doing something to earn

6. **Portability-** Money must be portable, that is, easy to carry, to facilitate trading activities.
7. **Durability –** Money should not disintegrate, evaporate, or be easily destroyed or torn.
8. **Non counterfeitability-** The money should not be easy to counterfeit or to copy.

SOURCES OF BUSINESS FINANCE

What is business finance?

It is defined as the combination of a large amount of money in form of cash or other resources obtained by the business to help it run its operations properly and effectively.

State the reasons why a business may need to find finance.

- a. To start up the business as new
- b. To expand the business either in terms of market share or product.
- c. To make the business survive in difficult financial situations.
- d. To take advantage of a business of a business opportunity, for example, a highly rewarding contract.
- e. To buy expensive equipment or machine or machine or any item which it cannot buy on its own.

Explain the internal and external sources of business finance.

Internal sources – are those sources from the business owners or from the business itself.

Examples of internal sources of finance include

1. **Personal saving-** the owners accumulate over a period of time in order to invest a huge amount of money in the business of their choice at the right time.
Disadvantage- Unstable value of money, with time, money loses value due to inflation.
2. **Pension fund** – This refers to a huge amount of money that people receive

from formal employment when they retire. This money may be invested into a business as finance.

Disadvantage- People normally get pension when they are old and do not have sufficient strength and skills to operate business.

3. **Retained profits-** This is an extra amount of money a business makes over and above what was invested into it. The owner of the business can retain it into the business for growth.

Disadvantage –It applies for only those businesses that are profitable and the amount reinvested is normally very little.

External sources

External sources are those from outside the business and they include

1. **Grants/donations –** Grants can be obtained from the government or other organizations. The government may provide grants to traders who want to start business in rural areas or traders who want to trade in a rare type of business a required by the government itself.

Disadvantage –There are conditions that are attached to the finance provided. If the trader fails to satisfy the conditions, he/she may lose the grant.

2. **Borrowings/loans-** A business can be financed by a loan which can be provided by the government itself, or the banks and microfinance institutions.

Disadvantage-

Firstly, the business is mandated to pay interest on the borrowed funds even though it makes no profit.

Secondly, the business owners may lose the entire business in case of failure to pay the borrowed funds because the lenders may snatch the whole business from the business owners in order to recover their money.

Explain the following types of loan with specific examples.

1. Short-term sources

Short term loans are obtained usually to cover cash flow during which a business has little cash coming in for a short while

Short term sources of finance include

- a. **Overdraft**- An agreement with the bank to withdraw more money in the bank than what the bank has up to a certain limit. Interest is only charged on the amount borrowed on a daily basis.
- b. **Bank loan**- A given amount is borrowed for a certain amount of time. Interest is charged on the full amount borrowed until the end of the loan.
- c. **Trade credit** – Goods or services are bought and paid for after a delay of usually 30 days or more. No interest is usually charged. This helps the business to get the required products and services at the time it cannot pay for them.

2. Medium term

This loan is used to cover particular purchases by businesses such as replacing worn out machinery, developing a new product or investing in new technology.

Medium term sources include

- a. **Bank loan** to be paid after 3 years or more
- b. **Hire purchase or leasing**- Equipment is bought in the case of hire purchase or leased (not owned) over a period of years and paid for in instalments. Interest is added to the amount paid.

3. Long term

This type of loan would be used to pay for setting up a new business or a large-scale expansion. It can be used to pay for buildings or assets that will last for the length of time.

Long term loan include

- a. **Long-term loans**- To be repaid after ten years
- b. **Mortgage loan**- Loans mostly secured against land and buildings
- c. **Sale and leaseback**- Land or buildings or any equipment may be sold to a company and then leased/rented back. Interest is charged and the business no longer owns the land, buildings or the equipment.
- d. **Debentures** – where public companies borrow from other companies and pay interest on the loans.

CHAPTER FIVE-PRODUCTION

What is production?

Production is a complete process which transforms various forms of inputs into outputs or finished products using a range of facilities.

Explain the objectives of production for a business.

- a. To satisfy the wants and need of consumer.
- b. To maximize their profitability in order to continue operating.
- c. To add value to another product or material

Explain four factors of production.

- a. **Land**- It represents a combination of all resources provided by nature. Tangible and intangible products require the provisions of nature to produce the products. Payment for the use of the resource of land is called **rent**.
- b. **Labour**- It refers to actual physical and mental efforts and talents that human beings contribute to the production of goods and services. Payment for the use of the resource of labour is called **wages**.
- c. **Capital**- It refers to the produced goods that can be used as resources for production of other products. Payment for the use of the resource of capital is called **interest**.
- d. **Entrepreneurship**- It refers to the managerial ability and skill to create and run a business using the available resources of production. Payment for the use of the resource of entrepreneurship is called **profit**.

DIVISION OF LABOUR AND SPECIALIZATION

What is the difference between division of labour and specialization?

Division of labour is where each worker does one specialized job while specialization refers to concentration of resources used in production in a narrow range of products rather than a wide range of products.

Explain three levels of specialization.

1. **By individual**- This is where an individual concentrates all his or her efforts, skills and ability in doing one activity or occupation.
2. **By region**- This where a business or an industry concentrates its effort, skills and abilities in a particular area of a country. This because of well-trained

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labour force is available locally, raw materials are close within the region, access to markets is relatively easy and sources of power are easily available in the region.

3. By countries- This is where countries concentrate their efforts, skills and abilities on producing goods and services they can produce more cheaply than other countries. This specialization is enabled by suitability of the climate, availability of raw materials and other resources, readiness of markets and sources of power are easily available.

Explain the advantages and disadvantages of specialization.

Advantages

- a. It increases and sharpens skills through constant repetition of the same task.
- b. It saves time and hence output is greatly increased.
- c. Time is saved when training workers
- d. It makes possible the use of complex machinery when the operation is broken into various operations specialized by individuals.

Disadvantage

- a. Repetitive operations make an individual dull and bored.
- b. It increases the possibility of unemployment if there is no other need for the task that one specialized.
- c. It increase interdependence of different sectors of the economy and failure of one sector may affect the whole economy.

FORM TWO BUSINESS STUDIES COMPREHENSIVE STUDY NOTES

CHAPTER SIX

NATURE OF BUSINESS

What is an external environment?

It is the environment that cannot be controlled by the business and is outside the business or organization and can affect or be affected by the business.

Explain five external environmental (PESTLE) factors that affect business.

Provide real-life example in each case.

1. Political factors

- These include the occurrences of riots, wars and political unrest in the country which may negatively affect the businesses. The investors fear to come and conduct businesses in countries where these are taking place.
- They also include policies such as privatization, nationalization and decentralization initiated by the government and regulations that are made by the government that can negatively or positively affect business **organizations**.

2. Economic factors

The following are the economic factors that have impact on business operations

- Interest rates**- When interest rates are high, business will be discouraged from borrowing money and therefore business activities do no expand. Business involved in production use expensive machinery and equipment which can be acquired through bank loans and with the high interests, the producers cannot manage to acquire them
- Exchange rates** - When the value of other countries' currency increase, businesses, the imports become more expensive. This affect most businesses which depend on raw materials from those countries.
- Gross Domestic Product**- Gross domestic product represents the total value of all final goods and services produced each year in a country. When GDP increases, business performance increases because the demand for the goods and services increases.
- Demand and supply**- When demand for goods and services is higher, the sales made by businesses increase. When supply the supply is high, the consumers can easily negotiate the prices income for the producers.
- Inflation**- Inflation represents a general increase in the prices of products and services in the country. When inflation is high, businesses will pay more for materials and products and as such most businesses may not manage to continue operating.

- f. **Taxation**-an increase in taxes may affect the type of products that people buy because when taxes are higher, the amount of money people use to spend for themselves decreases.

3. Social factors

- **Customs and traditions** of the population in a particular region determine the types of products or services to be sold in that region
- **Education levels** affect the operations of the businesses. For example most commercial banks are operating in towns because the population there is literate and understands the need for banking services unlike in the rural areas.
- Other social factors that affect business are age, household structures, life styles and personal incomes.

4. Technological factors

- Has made most banks and tertiary institutions to provide their services via the internet without having the customers and students visiting the bank or college physically.
- The modern equipment with the advancement of technology has helped to speed up the production of products
- It has led to the development of e-commerce where marketing, selling and buying of a product is done via the internet.
- Commercial banks are driven by high levels of technology in Malawi and have become real-time on-line in their operations. This means that a transaction that takes place at one branch of a bank is accessed by all branches irrespective of locations.
- The utility bill payments on the phone, ATM, point of sale at filling stations assist business growth.

5. Legal factors

- The laws of the country affect the operations of business because they limit some business activities which would have the businesses more profit for survival.
- Banks for example are supposed to disclose their financial business deals

to customers including charges levied onto transactions customers request for.

- All companies must pay tax to Malawi Revenue Authority

6. Environmental factors

- Occurrence of natural disasters such as volcanic eruptions, heavy rains, whirling etc. affect businesses.
- Emission of large amount of carbon gas by some companies led the government to impose penalties and heavy taxes on such businesses.

Define the following terms

- a. **Interest rate-** It is a percentage representing the extra amount of money a business pays back when it borrows money from the bank or any other lender.
- b. **Exchange rates (Foreign Exchange Rates) –** It is the value of one currency country's currency in terms of another currency.
- c. **GDP** - Gross domestic product represents the total value of all final goods and services produced each year in a country
- d. **Inflation** - Inflation represents a general increase in the prices of products and services in the country
- e. **The spot exchange rate-** It refers to the current exchange rate.
- f. **The forward exchange rates-** it refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date.

Explain how the following economic factors influence business organizations

- a. **Interest rates-** When interest rates are high, business will be discouraged from borrowing money and therefore business activities do no expand. Business involved in production use expensive machinery and equipment which can be acquired through bank loans and with the high interests, the producers cannot manage to acquire them.
- b. **Exchange rates** - When the value of other countries' currency increase, businesses, the imports become more expensive. This affects most businesses which depend on raw materials from those countries.
- c. **Gross Domestic Product-** Gross domestic product represents the total

value of all final goods and services produced each year in a country. When GDP increases, business performance increases because the demand for the goods and services increases.

- d. **Demand and supply**- When demand for goods and services is higher, the sales made by businesses increase. When supply the supply is high, the consumers can easily negotiate the prices income for the producers.
- e. **Inflation**- Inflation represents a general increase in the prices of products and services in the country. When inflation is high, businesses will pay more for materials and products and as such most businesses may not manage to continue operating.
- f. **Taxation**-an increase in taxes may affect the type of products that people buy because when taxes are higher, the amount of money people use to spend for themselves decreases.

CHAPTER SEVEN- TRANSPORT

Explain the importance of transportation in business.

- It helps the distribution of goods to various places
- It helps the movement of people from one place to another.
- It makes international trade possible
- It helps to preserve the quality and conditions of goods.

Explain the qualities of a good and efficient transportation system.

- **Economic**- there must low cost of the transport system
- **Speedy** – a transportation system bust be fast and reliable
- **Convenient** - a transport system must be able to relieve a business or an individual from difficulties and not to more and more difficulties.
- **Regular** – the transport system must have fixed times when departures and arrivals are implemented.

State eight types of transport

- Road transport
- Railway transport
- Air transport

- Water transport
- Pipe line transport
- Conternational transport
- Refrigeration transport

State the Advantages and the disadvantages of road transport

Road is transportation of goods or people through lorries, buses etc.

Advantages

1. Goods are loaded at the departure point and offloaded at the destination reducing the amount of breakages or pilferage(theft)
2. It is flexible since it possible to choose the shortest route without really following the fixed route.
3. It is mostly cheaper for short distances
4. Minimum documents are involved when transporting gods by road.

Disadvantages

1. It is expensive for long distances and heavy roads
2. It is slow for long distances especially due to traffic congestions.
3. It is affected by weather conditions
4. It creates pollution to the environment

State the advantages and disadvantages of railway transport

Railway transport is a form of transportation on the land

Advantages

1. It is cheap for long distances
2. It is quick for long distances compared to road as there are no congestions on rail
3. It is good to carry bulky cargo unlike road transport
4. It does not create pollution I cities.

Disadvantages

1. It involves documentation
2. It requires the loading and unloading of cargo many times.
3. Trains cannot go anywhere since they are restricted to areas where there is a rail network

4. Move only according to schedule and not at any time as required by the one who wants to send the goods.
5. Located out of cities and so depends on road transportation to be accessed
6. High capital cost of maintaining the trains.

State the advantages and disadvantages of air transport

Air transportation is where goods are transported using aeroplanes

Advantages

1. It is quick and goods are not subjected to poor conditions as compared to other types
2. There is safe handling of cargo.
3. Less insurance costs compared to rail transport
4. It is not affected by topography
5. It is especially suitable for high value and low volume cargo
6. It can be good for transporting required goods urgently

Disadvantages.

1. It is expensive
2. It is heavily affected by weather conditions
3. Not suitable for bulk cargo

Sea transport is where goods are transported through water. Explain the following types of sea transport.

- a. **Passenger line** – it is a ship normally used for carrying passengers, mail and some express cargo.
- b. **Cargo liner**- it is a ship mainly used to carry variety of cargo and sometimes few passengers.
- c. **Tramp** – it is a cargo ship which does not sail to any special place. It is normally chartered or hired.
- d. **Bulk carrier**- it is a ship especially built to carry a particular type of cargo for example oil.

State the advantages and disadvantages of water transport.

Advantages

1. It is cheap per unit of cargo for longer distances
2. It is highly suitable for bulky cargo.
3. Refrigerating and other facilities are available
4. It is not affected by topography.

Disadvantages

1. It is very slow
2. It is rigid that is it only goes through the established routes
3. It is heavily affected by weather conditions
4. It requires a lot of documentation
5. There is a lot of handling of cargo leading to damage.
6. Extra cost for insurance and packaging is high.

State the advantages and disadvantages of pipe line transport

Pipe line transport is the transportation of goods such as liquids and gases through a pipe.

Advantages

1. It requires low operational cost the moment the pipes are fixed.
2. It suitable for gasses and liquids which are easy to catch fire.

Disadvantages

1. The amount of money required to fix the pipes is so huge.
2. The system is affected by topography in that it requires a flat slope
3. The pipes can leak and cause problems to people around the leakage area.

Explain two modern trends in transportation.

1. **Containerization-** It is a transport system of sending cargo in special metallic box of a standard sizes as container owned by shipping companies.
2. **Refrigeration-** it is a form of climate controlled transportation which is designed to maintain a cool or frozen temperature depending on the product being transported.

State the advantages and disadvantages of containerization transport.

Advantages

1. It provides a quick movement of cargo
2. There is protection of cargo from being damaged.
3. It saves on packing cost
4. There are lesser chances of cargo being lost.

Disadvantages

1. It is very expensive as capital cost increases
2. It depends much on skilled labour.

State the advantages and disadvantages of refrigeration transport

Advantages

1. It is good for perishable products
2. Cases of damage are minimal

Disadvantages

1. It is very expensive to install
2. It requires only good roads.

Discuss the roles of the following institutions in the transport sector.

a. The Civil Aviation

The Department of Civil aviation under the Ministry of Transport looks after the Civil aviation refers to flights and aircrafts used for personal and business purposes rather than for military purposes.

The following are the main roles and responsibilities of the civil aviation

- a. Licensing and regulation the basic training and issuance of licenses and certificates to pilots
- b. Controlling flight operations by carrying out safety oversight of commercial operators
- c. Ensuring airworthiness by issuing certificates of registration and certificate of airworthiness to civil aircraft and overseeing the safety of aircraft maintenance organizations.
- d. Designing and constructing airport facilities.
- e. Managing and air traffic inside of a country's space.

b. The Road Traffic Directorate

The Road Traffic Directorate is a department under the Ministry of Transport.

It plays the following roles

- a. Registration, inspection and licensing of motor vehicles
- b. Administration of driving tests
- c. Issuing of learners permit, /provisional license and driver's licenses.
- d. Controlling the movement of vehicles on the roads.

c. The National Road Safety Council

It plays the following roles

- a. It reports to the Ministry of Transport on all road safety issues
- b. It is responsible for spreading of road safety publicity materials and education to all road user groups in Malawi in a bid to reduce road traffic accidents.
- c. It makes sure that drivers are taught rightly on how to use road signs.

d. The Roads Authority

It plays the following roles

- a. It constructs, rehabilitates and maintains public roads of up to 15,000 kilometers long.
- b. It makes sure that Malawi roads are in good condition and are taken care of.

Explain the factors that are considered when choosing the mode of transport.

1. **Transportation cost-** there is need consider to choose the mode of transport that have lower cost.
2. **Nature of goods transported –** choose the mode of transport that suitable type of the goods to be transported
3. **Speed of the transportation type –** it depend how fast goods need be taken to the designated place.
4. **Urgency of the goods transported–** Goods that are immediately needed should be transported quickly.
5. **Safety of the goods –** People chose mode of transport based on level of safety.
6. **Availability-** Choose the mode of transport that is readily available and convenient to transport the goods.

CHAPTER EIGHT- LIMITED COMPANIES

Who are promoters?

These are people who take the first steps to form a company and become shareholders of the company for the first period of its existence.

State the procedures for formation of a limited company

- a. Preparation and issuing the **prospectus**- Prospectus is a document which contains information and facts about the operations of the new company which is to be created. It is made available to those who have an interest of becoming owners or shareholders.
- b. Preparation of two documents called the memorandum of association and the articles of association
- c. When the memorandum of association and articles of association are completed, they are sent to the registrar of companies who then issues a Certificate of Incorporation to the company.

What is a limited company?

It is a company in which liability of the members or subscribers is limited to what they have invested or guaranteed to the company. Limited companies can be limited by shares or by guarantee.

What is a legal entity?

This means that a company is living thing separated from the owners who formed it and as such it has its own name and rights

What is the difference between the shareholders and directors?

Shareholders are the owners of the company while directors are professionals who are appointed by the shareholders to run the company/business on the behalf of the shareholders.

Define the term share.

It is a proportion of the company's ownership given to a shareholder.

What is the difference between Memorandum of Association and Articles of Association?

Memorandum of Association governs the relationship of the company with the outside world while the Articles of association controls the internal running

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of the company.

Explain the purposes of memorandum of association and articles of association.

Memorandum of Association governs the relationship of the company with the outside world while the Articles of association controls the internal running of the company.

What are the contents or clauses of the following documents?

a. Memorandum of Association

This contains

- Name and address of the company
- Registered office
- Objectives of the company
- Statement of limited liabilities
- Amount of share capital
- Number of shares to be taken by each director
- Statement of intent to form a company

b. Articles of Association

This contains the internal rules of the company

- The rights and obligations of directors
- Procedures for calling general meeting of the company
- Procedures for electing directors
- Borrowing powers of the company

State two types or forms of limited companies

a. Private limited companies

- It is the company which limits the number of its shareholders to fifty
- It does not allow the public to buy shares in it
- It restricts the transfer of shares from one member to another
- Usually end their name with the abbreviation Ltd
- Does not require a Trading certificate

b. Public limited companies

- It is the company which sells its shares to the general public and it is

registered on the stock exchange

- Usually end their name with the abbreviation Plc
- Shares are transferable from one member to another

What is the stock market?

It is a market through which the general public can buy or sell shares of various public companies.

State the advantages and disadvantages of private limited companies.

Advantages

- a. It has separate legal entity from its owners which makes business continue
- b. The company is able to gain more investors because of limited liabilities
- c. Easy to achieve economies of scale due its size
- d. the founders are able to keep control of the business

Disadvantages

- a. The company cannot raise more capital from the general public
- b. Shares are not traded on the stock exchange market hence problem of raising additional funds
- c. Shares transfer their shares only upon consultations with other shareholders.
- d. Company affairs are not private since it issues out annual report

State the advantages and disadvantages of public limited company.

Advantages

- a. Shares can be sold at stock exchange market without restrictions
- b. It has separate legal entity from its members
- c. Enjoys economies of scale
- d. it attract more investors because of limited liabilities
- e. It can raise more additional funds from the general public.

Disadvantages

- a. Annual account report has to be published
- b. Difficult to manage a large public company
- c. It is complex to form public company

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- d. Shareholders are not allowed to contribute to managerial skills of the business
- e. There is loss of personal contact between owners and management

State the differences between Public limited companies and Private limited companies

The following are some of the differences between public limited company and private limited company

| Public Limited Company | Private Limited Company |
|---|--|
| Has minimum number of seven members and maximum number is limited by shares | Minimum number is two while maximum number is fifty. |
| Can subscribe to sell its shares and debentures | Cannot subscribe shares and debentures to the public |
| Cannot start operations after registration and requires Certificate of Commencement to start its operations | can start its operations after getting Certificate of Incorporation from the registrar |
| Shares are easily transferable | Cannot transfer its shares |
| Cannot sell shares in the market place until minimum subscription is collected | Has no provision to collect minimum subscription |
| Add the word plc as the word after its name | Add the words private limited (Pvt Ltd) |
| At least three directors in the board of directors | Two directors in the board of directors |
| The directors must purchase the number of qualified shares to become directors | It is not mandatory to purchase minimum number of qualified shares |

CHAPTER NINE

What is a financial institution?

It is an establishment which provides a link between the borrowers of money.

Briefly discuss the roles of the following financial institutions

- a. **Discount Houses** – they are financial institutions that purchase **various bills** from holders who want to get the money before maturity. Examples of Discount Houses in Malawi are Continental Discount House and First Discount House.
- b. **Insurance companies** - **They** provide cover for certain risks in return for regular payments called premiums.
They also provide investment opportunities to individuals and businesses.
- c. **Investment trusts**
They use their capital to buy shares in other companies in order to make profits for their own in isolation.
They offer small investors the opportunity to invest in large and profitable investments which they could not manage on their own.
- d. **Unit trusts**
The managers use the money invested by savers to buy shares.
- e. **Commercial banks**- They accept deposits from customers

State four services that are provided by the financial institutions.

What is a bank?

It is a financial institution whose primary activity is to act as a payment agent for customers and to borrow and lend money.

What are non-banks? Provide examples.

These are financial institutions that do not have full banking license or are not supervised by a regulatory authority (Reserve Bank of Malawi).

Functions of non- banks.

- a. They facilitate bank-related financial services such as investment, risk pooling, contractual savings and market brokering.

Examples include Insurance Firms, Pawn Shops, Cashier's Check Issuers, Currency Exchanges and Microloan such As FINCA.

Explain two types of banks in Malawi

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- a. Central bank (Reserve Bank of Malawi) – It is involved with wholesale banking activities more especially with government
- b. Commercial banks- they are privately owned and created to make profits for the owner.

Explain five importance of banking

- a. Safekeeping for cash
- b. They provide safe and convenient way of making.
- c. They provide finance to business
- d. They provide interest on customer's deposits.

State six principal objectives for the formation of the central bank/the Reserve Bank of Malawi.

- a. To issue legal tender currency in Malawi.
- b. To act as banker and advisor to the government
- c. To maintain foreign currency reserves so as to safeguard the international value of the Malawi currency.
- d. To promote a money and capital Market in Malawi
- e. To act as lender of last resort to the banking system
- f. To act as lender of last resort to the banking system
- g. To act as the banker of all the banks.
- h. To supervise banks and other financial institutions

State five functions of the central bank.

1. Issue new currencies or issue bank notes and coins to control currency fluctuations in the country.
2. It is the banker of government- it acts as a banker for government and parastatals
3. It manages public debts
4. It lends out money to government.
5. It acts as banker of commercial banks by accepting deposits of surplus cash from the commercial banks
6. It acts as clearing house- It arranges transfer of funds between and among banks more especially through cheque deposits.

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7. It is lender of last resort- This occurs when commercial banks are short of cash and that there is nowhere to borrow, they resort to central bank assistance at some level.
8. It regulates commercial banks-by making policies for controlling the activities of commercial banks.
9. Conducts monetary policy relating to interest rates and money supply to control economy.
10. It manages foreign exchange
11. It is advisor of the government on financial matters

Explain five functions of commercial banks in Malawi.

- a. Storing money- They accept and safeguard money of their customers
- b. Transferring money from one account to other account.
- c. Collection of money on behalf of their customers
- d. Lending money to their customers. Banks lend out money by providing loans and overdrafts to businesses and individuals.
- e. Provide their customers services such as ATM facilities, banker's reference, and night safe facilities.
- f. They facilitate payments among individuals or businesses by issuing cheques, bank drafts, standing order, direct debits, credit transfers and online banking.

Discuss the services that are offered by commercial banks in Malawi.

- a. They provide safe custody of valuables such as title deeds, will etc.
- b.** Providing banker's reference- they help businesses by providing reference of their financial standing to some other parties who may be interested to go into contract with them
- c. They provide investment advice to their customers.
- d. Accepting deposits from customers
- e. Lending money to borrowers

Explain five different ways how the commercial banks facilitate payments.

- a. **Use of cheques-** A cheque is an order to the bank to pay a stated sum of money to the bearer of the cheque or to another named person.

- b. **Bank draft**- It is issued by the drawee bank in favour of the payee on the advice of the payer.
- c. **Standing orders** –It is an order in form of written instructions to the bank to pay regularly a fixed sum of money from one person/business to a specific payee.
- d. **Direct debit** - It is an order in form of written instructions to the bank to pay regularly a varying amount of money from one person/business to a specific
- e. **Credit transfer** – this is where the payer writes a cheque in favour of the bank for the whole amount to be paid. The payer provides information in writing about all the payees to be paid by the bank.
- f. **Online payment** -

How does a direct debit differ from a standing order?

Standing orders –It is an order in form of written instructions to the bank to pay regularly a fixed sum of money from one person/business to a specific payee while **Direct debit** - It is an order in form of written instructions to the bank to pay

Explain the advantages and disadvantages of standing orders.

Advantages

- a. Payments are made automatically hence increasing the creditworthiness of the payer.
- b. Payer does not have to remember the due dates of payment.

Disadvantages

- a. When there is not enough balance in the payer's account and the cheque is dishonoured.
- b. Only suitable for fixed amounts and regular intervals. Amounts that keep on changing cannot be paid through standing orders.

Explain three advantages and two disadvantages of the credit transfer as means of facilitating payments.

Advantages

- a. It saves time

- b. It saves on administrative costs
- c. Track record of payments is kept.
- d. It saves on cheques and postages costs

Disadvantages

- a. It is possible only when payee has a bank account
- b. There are bank charges associated with this arrangement.

State three ways how the commercial banks facilitate payments and receipts of money.

- a. Through ATM
- b. Mobile phone banking
- c. Point of sale machines
- d. E-Banking.
- e. Through cash
- f. Through cheques

Electronic banking include : ATM, Mobile phone banking, Point of sale machines and E-Banking.

Parties to a cheque

- a. **Drawer** –it is a person who draws out and signs the cheque. In other words, he is the owner of the cheque or source of cheque.
- b. **Drawee** –It is a person who is ordered to pay the money to drawer i.e. the bank upon which the cheque is drawn (the banker).
- c. **Payee**- It is a person to whom the banker is ordered to pay the money i.e. is the person who gets the funds.

Explain the following forms of cheques

- a. **Open cheque/Bearer cheque**- These are cheques payable to bearer of the cheque. It can be cash cheque or a cheque in somebody's name that can be cashed on the counter. They are easily transferable from one holder to the other.
- b. **Crossed cheque/order cheque**- these are the account payee cheques and restricted to the person or organization payable and are crossed

cheques limiting transferability of the instrument from one person to the other. These cheques are not cashable at the counter. They are cheques with two parallel lines drawn on their faces to safeguard them from being cashed out by wrong people.

- c. **Stale cheque – These are cheques that have become dead in usable life and lives use for up to 6 markets.**
- d. **Dishonoured cheque-** this is the cheque that the drawee bank has refuses to pay them and the cheque be returned to owner.
- e. **Post- dated cheque- It is** these are cheques drawn today with future date.
- f. **Bank certified cheques- these** are cheques that are signed by the bank manager on their faces indicating that payment if.

Explain two types of crossings on the face of the cheque.

- a. **General crossing-** This consists of two transverse parallel lines across the face of the cheque, with or without the words in between or any abbreviation of them
- b. **Special crossings-**This is a situation where the name of the bank, company and some special words ‘Not Negotiable’ are written between the lines. The aim for writing words: ‘Not Negotiable’ is to safeguard the cheque from wrongful owners i.e. if lost, whoever finds it cannot cash out money until it is given back to the owner.

Explain the advantages and disadvantages of a cheque.

Advantages

- Minimum cash handling hence minimizing the possibility of cash theft
- Convenient and safe track record of payment can be maintained
- Better business control
- Sometimes it is a legal obligation for businesses to transact through cheques

Disadvantages

- Cheques can be dishonoured where the drawee bank denies to make payment.
- Payments through cheques means limited hard cash

- Paper work increases

Explain five ways how the cheque may be dishonoured.

1. When the drawer is dead
2. When the drawer is about or has become bankrupt
3. When the drawer has instructed the banker to do so.
4. When the cheque is either stale cheque or post-dated loan.
5. Where forgery is suspected
6. Where signatures are different
7. Where words and figures differs
8. Where is not adequate money in the account?

Explain the following types of bank accounts

a. Savings Account-

- Suitable for those who wish to save small sums of money
- opened with minimum deposit
- Earns low interest
- Money can be deposited and withdrawn any time
- Certain limits of withdrawing money are set

b. Fixed deposit account

- Suitable for those with extra money to be set aside to earn interest
- Opened with large deposit
- Earns high interest
- Amount of deposit remains fixed, cannot withdrawn until a specific period expires
- Amount of deposits remains fixed, cannot be withdrawn.
- The depositor receives, a certificate

c. Current account

- Suitable for business or individuals who need safe method to and receive payments
- Opened with large deposits
- Earns no interest if the amount is below a certain level.
- Money can be deposited and withdrawn anytime.

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- Overdraft facilities are available.

Explain the types of loans

Bank loan is a lending facility offered by the bank to meet long term requirements such as acquisition of fixed assets and development of infrastructure. The borrower has to pay the principal amount along with the interest.

Bank overdraft is a short term facility offered by the bank to the borrowers where the borrowers can withdraw more than their balance in their accounts.

State the factors that are considered by the commercial banks before granting the loan facilities to their customers.

- a. Purpose of the loan
- b. Credit worthiness of the borrower
- c. Amount of the loan
- d. Duration of the loan
- e. Collateral or security

CHAPTER TEN - PRODUCTION

What is production?

It is the creation of goods and services or creation of utilities.

Explain the characteristics of job production.

- In job production, the work is done in response to a special order and requirements of particular customer.
- Each job is unique for each customer,
- production is very expensive to the producer
- General purpose or special tools, equipment and machinery are required to meet the design required by the customer
- workers need to be highly skilled
- Materials required for the product cannot be stocked or kept in advance because of the unpredictable design required by the customer.

Explain the advantages and disadvantages of job production

Advantages

1. The product is exactly suited to the needs of the customer
2. The product is given the sole attention of the whole production team until it is completed
3. As every product has its customer ready, there is certainty that the product will be sold when completed.

Disadvantages

1. It requires high levels of design activities hence costly
2. Production is normally slow and the production run/time is very long.
3. No economies of scale as the business concentrates on the product ordered.

Explain the characteristics of batch production

- In batch production, a number of products are manufactured at once in batches over a single production run.
- Production runs in batch production method are relatively shorter compared to those in job production.
- General purpose machinery and equipment are still required
- More division of labour than in jobbing production.
- Forward planning and purchasing of materials is required

Explain the advantages and disadvantages of batch production

Advantages

1. Output can easily be matched to demand of the production
2. The design of the batches can be altered or changed to suit the requirements of the customers.
3. There are gains from economies of scale.

Disadvantages

1. There are high levels of incomplete goods where production is not properly linked to demand.
2. Division of labour may sometimes lead to boredom and thus demotivating the workers.
3. Cost of production decreases when the batch sizes increase. The increase

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in batch sizes leads to a high cost of storing the unsold goods.

What is flow production?

It is a production method where a single product or a restricted range of products are made on a continuous basis with an unbroken production flow from one operation to the next.

Explain the characteristics of flow production

- High capital investment is required
- Continuous maintenance to avoid break downs of machinery
- Production takes long for individual products.

Explain the advantages and disadvantages of flow production

Advantages

1. High and consistent quality of products
2. Labour costs are low.
3. Physical handling of products is minimized
4. Economies of scale are achieved (more products, less costs)

Disadvantages

1. Huge cost of setting up a production line.
2. Less or no flexibility. Once the machinery is set it is not possible to change the products to pass through it.
3. Tasks involved are repetitive leading to boredom among workers.
4. Large volume of automation used results into labour loss.

Explain the characteristics of lean production

Lean production is the production of goods in the most efficient way possible to ensure that there is no waste.

The following are the methods in lean production are

- a. **Kaizen**- It is a continuous improvement system through the elimination of waste. It uses the mental abilities of workers who are encouraged to assess their roles in the production process and to make suggestions of improvement.

Advantages

- Increased productivity

- Reduced amount of space needed for the production process
 - Work-in-progress is reduced
- b. **Just-in-time-** It is concerned with the supply of the exact stock needed for production and on time. Detailed planning is needed and a good relationship between suppliers and the business must be built up so that stock is received just before it is needed on the production time. It requires reliable suppliers for it to be successful.
- c. Cell production- This is where the production line is divided into a number of mini self-contained factories called cells. Each cell makes an identifiable part of the finished product. The system increases the worker's morale
- d. Kanban- It is an approach to production that uses JIT stock control and leads to stock being pulled into the production line only when it is needed.

State the objectives of production

These include

- a. To increase revenues
- b. To satisfy the market through consumption
- c. To enhance high levels of employment
- d. For better economic growth, especially GDP growth
- e. To improve balance of payment.