ECONOMICS E-LEARNING NOTES FOR YEAR 11

SCHEME OF WORK FOR THIRD TERM

WEEKS	TOPICS
1.	Revision
2.	Elements of National income Accounting.
3.	Types of Financial institutions and their functions.
4.	Types of Financial institutions and their functions
5.	Demand for Money and Supply of Money
6.	Inflation and Deflation
7.	Mid-term Break
8.	Manufacturing and construction
9.	Service industries.
10.	Revision

WEEK 2

SUBJECT: ECONOMICS

CLASS: SS II

TOPIC: Elements of National Income Accounting

CONTENT:

(1) Meaning of National Income Concepts and their uses

(2) Ways of measuring national income and their limitations

(3) Uses and limitations of national income estimates, trend and structure of national income

Sub-Topic 1: Meaning of National Income

Definition

National income is the monetary value of all the goods and services produced within a country over a given period of time, usually a year plus net income from abroad. It also includes the income accruable to all factors of production: land, labour capital and entrepreneur. The national income is different from the income of the government. The national income is the value of all economic activities of the country for a particular period of time while government income is the revenue raised through taxation, borrowing, fees, etc.

The government also contributes to the National Income.

In conclusion, the national income of a country is the summation of income received by the citizen of the country whether the income is earned in the country or earned in another countries minus the income generated in the country but traceable to the foreigners.

National Income Concepts

The major concepts of National Income include

(1) Gross Domestic Product (GDP)

(2) Gross National Product (GNP)

(3) Net National Product (NNP)

(4) Personal income (PI)

(5) Disposable income

(6) Net Domestic Product (NDP)

(7) Income per capital

(1) Gross Domestic Product (GDP): - *Gross Domestic Product can be defined as the total money value of all the goods and services produced in a country at a particular period of time but excluding net income from abroad.* This GDP is used to measure the rate of growth of the economy. In calculating GDP earnings of citizens and their investments abroad are excluded.

(2) Gross National Product (GNP): *- Gross National Product is the total monetary value of goods and services produced by an economy during a specified period of time usually* *a year.* It includes all earnings of citizen of a given country and investment income of citizen abroad. It excludes the investment of foreigner from calculation of National Income account and no allowance is made for depreciation.

Mathematically,

GNP = GDP + Net Income from abroad

GNP = GDP + X – M

Where: X is export

M is import

(3) **Net National Product (NNP):** It is the total monetary value of all final goods and services, produced by all the citizens of a country (home and abroad) and income from their investments after allowance has been made for depreciation.

Mathematically, NNP = GNP – Depreciation

(4) **Personal Income: -** Personal Income can be defined as the income or amount of money received by individuals or households over a given period of time. Personal income includes wages to labour, interest to capital, rent to land owner and profit received by the entrepreneurs. If there is not tax element in the total income, it can be represented by a symbol (Y).

(5) **Disposable Income:** - Disposable Income may be defined as the amount of money left for individual or household after deducting the tax element. It is therefore refer to as Net Income.

Mathematically, Y – T

Where: Y = Income

T = Tax

(6) Net Domestic Product (NDP): - Net Domestic Product can be defined as the total monetary value of goods and services produced by all residents of a country and earnings from their investment for both citizens and foreigners within an economy after deducting depreciation.

Mathematically, GDP – Depreciation.

(7) **Income Per Capita: -** This is the estimated income of a country divided by the population of the country. It represent a useful index or measuring the standard of living of a citizens

Mathematically,

$$\text{Per Capita Income} = \frac{\text{National Income for 1995}}{\text{Population for 1995}}$$

Uses of major National Income Concepts

The uses or importance of National Income concepts are as follows:

(1) Economic Planning: - National Income estimates are used for economic planning. The estimate shows various contributions of all sectors of the economy, and it also give details that helps economic planner to get necessary information for planning.

(2) Standard of Living: - National Income estimates are used to measure the standard of living through standardizes the income of the citizen. A country with a poor standard of living would have a capital poor per capita income and vice versa because per capita income is an indication of the general well-being of the citizen.

(3) Influences Foreign Investors: - It attracts foreign investment to a country, based on the level of its national income, as investors usually seek countries with rich or fast growing markets.

(4) Capital formation: - the per capita income would help to quantify the level of aid and assistance a country needs. A country that has low per capita income would have low capital formation.

(5) For future forecast: - the national income data are used to forecast future rate of economic growth and development.

(6) To compare the standard of living of one nation with that of another: The income per head of one country can be used to compare with the income per head of another country. The country with the higher income per head is said to have a higher standard of living than a country with a lower income per head, other things being equal.

(7) **To aid allocation of resources in the economy: -** The national income covers the incomes of all regions or states of a country. The government can, therefore, know how to bring about equality in income or resources distribution among the various regions or states of the country.

(8) **To aid redistribution of income: -** An idea of differences in incomes gained through the national income estimates can help the government in its fiscal policy (i.e taxation) to redistribute incomes.

(9) **Useful guide to investors: -** The data gathered on people's expenditure, incomes and outputs will put investors in position to know whether it is worth investing their capital in the country or not.

(10) Revenue allocation: - In a federal country like Nigeria, national income data can provide information for revenue allocation purposes.

Sub-Topic 2: Ways of Measuring National Income

There are three distinctive methods of measuring national income

(1) Income method/approach

(2) Expenditure method/approach

(3) Output method/approach

(1) **Income Method/Approach: -** Income approach may be expressed as summation of incomes received by all the factors of production. The incomes to be added include workers' earnings in terms of wages and salaries, profit from entrepreneur rents on land, interest from capital etc. This summation of earning of these factors of production in a given year would give the national income using income method. Note that, whatever may be the income from prostitution and smuggling or other illegal activities would not be included in national income estimate. *Transfer payment and stock appreciation must be deducted in order to avoid double counting.*

(2) **Expenditure Method/Approach: -** This approach can be defined as the measurement of the total expenditure on currently produced final goods and services by the three agents of government in the economy, individual or household, firm and the government – plus net export. *Transfer payments are excluded such as pensions paid to retired workers, gift to beggars* etc.

(3) Output or Product Method/Approach: - Output Approach measures the total money value of all goods and services produced by the various sectors of the economy, particularly by the economic agents in a given year. National income is measured by summation of the value of the net contribution from the various sectors of the economy. In order to avoid double counting, income should be measured on value added (output less cost of inputs).

Note that, value of exports must be subtracted from import to get net export; this would be added to national income.

Limitations of Output or Product Method/Approach

(1) The fluctuation is exchange rate affects. Some economies adversely.

(2) National incomes do not reflect the standard of livin

Problems of computing National Income

(1) Double Computing: - This involves calculating the value of commodities twice or more. For instance in our country, it is problematic differentiating capital goods from consumer ones; they are therefore counted twice which gives false national income. Also in using the output approach, the cost of inputs may sometimes be recorded in addition to the value of finished products.

(2) Services not paid for: - There are some problems created by the self-employed people. In our society many of them do not keep proper book of account and therefore it is very difficult to ascertain what their incomes, expenditures and outputs are. For example, cutting one's own hair, giving free rides to friends, the services rendered by children and housewives, services rendered by voluntary organizations such as the Red Cross, Boy Scouts etc.

(3) Inflation and Deflation: - The national income figures can be over-or under-estimated as a result of inflation or deflation. Inflation raises national income figure, while deflation reduces it. The problem here is how to arrive at accurate national income figure that is not affected by either inflation or deflation.

(4) False data from inland Revenue: - False or incorrect declaration of income by some businessmen in order to pay less tax, high rate or tax evasion etc are some of the reasons why data from inland revenue should not be relied upon when calculating national income.

(5) **Illegal transactions:** - Some illegal transactions like smuggling of drugs make computation of national income very difficult.

EVALUATION

- Explain the methods of measuring the national income of a country.
- State any three problems associated with measuring national income (SSCE 1996)

Sub-Topic 3: Uses and limitations of national income estimates, trend and structure of National income.

(1) **Uses of National Income**

The importance or reasons for measuring national income include the following:

i. ***Economic planning:*** national income figures are used for economic planning. A nation uses her national income statistics on the contribution of various sectors of the economy to national output on both short and long term planning.

ii. ***To measure the standard of living:*** it measures the level of prosperity or the general standard of living of the people. The per capita income can be found by dividing the national income by the total population. The figure is a rough indicator of the general well being of the people in the country. If per capita income is low ceteris paribus, the standard of living will be low, vice versa.

iii. ***Redistribution of income:*** this helps the governments to design policies towards redistributing national income and the allocation of resources and revenue among sectors within the nation.

iv. ***Influences foreign investors:*** apart from population figures, national income estimates, give a rough idea of the potential demand to a foreign investor. The data gathered on peoples' expenditure, income and output will put investors in a position to know whether it is worth investing their capital in the country or not.

v. ***Basic of supply of technical aids to need countries:*** national income can be used as the basis of supply of technical aid and assistance to the needy nations. Also international organizations tend to give more technical assistance to poorer nations and this is usually identified by comparing the per capita income of nations.

Limitations of the usefulness of National Income Statistics

(1) **Depreciation:** different methods are being adopted by different companies to estimates the capital consumption allowance. This affects the estimate of action.

(2) **The problem of double counting:** the problem here is only the value added is used. If final goods and services are measured national income estimates will overstate the estimates – without necessary adjustments. This should be a serious setback to national income.

(3) **Inability to detect People's suffering:** the estimate does not detect some of the societal hazards like urban congestion, pollution etc.

(4) **Not a good measure for standard of living:** this is as a result of errors associated with data collection. Different countries have different priorities in terms of expenditure on output. If more money is now spent on defense and hosting international conferences, rather than on such welfare services as health and housing, the standard of living may not increase even if the per capital income has increased.

(5) **There are differences in the structure of production:** in some countries there is a large subsistence. Sector. In those countries, the level of output more like to be grossly under estimated than in a country with a market economy.

EVALUATION

- What are the uses of national income account n Nigeria SSCE.
- What are the limitations of national income estimate?

WEEKEND ASSIGNMENT

Objective Test

(1) Which of the following is not appropriate in calculating national income figures (a) output method (b) income method (c) expenditure method (d) value added method (e) depreciation method

(2) Which of the following would increase the GNP of an economy

(a) increased government expenditure on the salary of civil servants

(b) An increase in the proportion of the productively employed population.

(c) A decrease in the rate of unemployment

(d) A decrease in output per worker

(e) An increase in the population

(3) The difference between the Gross Domestic Product (GDP) and the Gross National Product (GNP) is the

(a) Allowance for total depreciation

(b) Total interest payment

(c) Net income from abroad

(d) Total tax and interest payment

(e) Net internally generated income

(4) Net National Product (NNP) is equal to the

(a) Gross Domestic Product GDP less depreciation

(b) Gross National Product (GNP) less depreciation

(c) Gross Domestic Product (GDP) plus depreciation

(d) Gross National Product (GDP) plus depreciation

(e) Gross National Income plus taxation

ESSAY QUESTIONS

(1) Define National Income

(2) What are the uses of National Income account to Nigeria? (SSCE)

(3) What is per capita income and whadoes it have when it is used to compare the standard of living between countries? (SSCE)

(4) Identify the likely problems that can be encountered in the compilation of National Income Accountant in Nigeria. (SSCE)

(5) Distinguish between Gross Domestic Product and Gross National Product (GNP) SSCE.

PRE-READING ASSIGNMENT

Read about Money market institutions

WEEKEND ACTIVITY

1. Highlight the factors that determine a country's national income. SSCE
2. Explain the various ways the national income of your country can be measured.

WEEK 3

SUBJECT: ECONOMICS

CLASS: SS II

TOPIC: Types of financial Institutions and their functions

CONTENT:

(1) Money Market institution and its function

(2) Capital Market institution and its function

(3) How the stock exchange operates, Secondary and primary market

Sub-Topic 1: Meaning of Money Market Institution

Money Market: The market is a financial market for trading in short term financial assets. It consists of individuals (and organizations) who wish to lend out money on a short term and those who wish to borrow. It is therefore a market for short-term loans and investment.

Financial institutions which operate in the money market include:

(1) Central Bank

(2) Commercial Bank

(3) Acceptance House

(4) Discount houses

(5) Hire-purchase companies

(6) Finance companies

Instruments used in the money market

(1) Treasury Bills

(2) Call money funds

(3) A bill of exchange

(4) Treasury certificate

FUNCTIONS OR ADVANTAGES OF THE MONEY MARKET

(1) Provision of circulating capital for commerce and industry

(2) Offering investment opportunities on a short-term basis for people and organization to enable them earn interest

(3) Provision of investment advice to customer

(4) Provision of opportunity for the public to participate in the management of the economy.

(5) Mobilization of savings for investment.

Sub-Topic 2: CAPITAL MARKET

This is a financial market for trading in long-term financial assets. It is a market for long-term loans and investments. It consists of people and organization who wish to lend out money or to borrow on a long-term basis.

The capital market can be divided into primary market and the secondary market. The primary market deals with the buying and selling of new securities. It is dominated by merchant banks.

The secondary market is the market that deals with the buying and selling of old (second hand) securities. It is dominated by the stock exchange.

Financial institutions which operate in the capital market

(1) Development bank

(2) Insurance companies

(3) Investment banks

(4) Mortgage bank

(5) The stock exchange

(6) Issuing houses

(7) Investment trust

(8) Finance corporations

(9) Savings banks

Instruments used in the capital market

(1) Shares

(2) Development stocks

(3) Government bonds

(4) Company bonds

Functions or advantages of capital market

(1) Provision of capital for permanent long-term investments in industry and commerce

(2) Provision of long-term investment opportunities for people and organization

(3) Provision of managerial, technical and financial advice to investors

(4) It encourages the growth of merchant banking

(5) Provision of the opportunity for the public to participate in the running of the economy.

(6) Provision of long term capital to investors both in the public and private sectors.

Other agencies that can access capital market

Second-Tier Securities Market:- It was established in April 1985 to encourage small and medium-scale enterprises to avail themselves of the resources of the stock market by making listing requirements and conditions less stringent for this category of enterprises. The aim is to increase the volume of security in the market.

Sub-Topic 3: The stock exchange market

The stock exchange market is a market which deals with the buying and selling of long term financial asset (securities) such as stock and shares e.g. The Nigerian Stock Exchange (formerly the Lagos Stock Exchange) was established in 1960.

DEALERS IN THE STOCK EXCHANGE

On the stock exchange, there are two main dealers: The stock Brokers and The Jobbers.

The brokers deal directly with the public. They act as their agents who buy and sell securities on their behalf and offer them advice. They charge a commission for their functions called ***brokerage.***

The Jobber is the main dealer at the stock exchange. He does not deal directly with the public but with brokers. The broker requests the jobber for his price for a particular security. He quotes two prices-a high price for selling and a lower price for buying. His profit is known as 'the jobber turn' i.e. the difference between his selling and buying price

FUNCTIONS OF THE STOCK EXCHANGE

(1) Raising of long term capital investment

(2) Easy marketing of long term securities

(3) Protection of the public against fraud

(4) Offering investment opportunities

(5) It acts as a barometer for measuring the economic performance

(6) Stabilization of prices of securities

Objective test

(1) financial system or market is a market where money and near money instruments exchange hand between…………………(a)buyer and seller (b) wholesaler and retailer (c) lenders and borrowers (d) demand and supply.

(2) Financial markets are broadly divided into ……………………….(a) Money and Money market (b) Capital and Capital market (c) Financial and capital market (d) Money and capital market.

(3) Money market as to do with……………. (a) Long term loan (b) short-term loans (c) Medium term loan (d) 1 to 5years term loan

(4) Loans given in capital market are usually for …………….. (a) less than two years (b)more than two years (c)less than or equal to two years (d) minus two years.

(5) The followings are the benefits of capital market except (a) Mobilization of savings for investment (b)Encourages the growth of central banking(c)Provision of investment advice(d)Provision of opportunity to the public to participate in running of the economy.

PART B: ESSAY TEST

1. What is money market?
2. Enumerate five functions of money market.
3. What is capital market?
4. List five institutions that operate in capital market.
5. Mention five benefits of capital market.

PRE-READING ASSIGNMENT

Read about determinants of supply and demand for money

WEEK 4

SUBJECT: ECONOMICS

CLASS: SS II

TOPIC: Types of financial Institutions and their functions

CONTENT:

1. Definition of a bank
2. Types of banks, definition and characteristics.

Definition of a Bank A bank is a commercial institution which performs various financial activities, e.g. accepting and handling of deposits of its customers. Bank is also a place where money and other valuables like will, jewellery, etc. are kept

TYPES OF BANKS

1. Commercial banks
2. Central bank
3. Merchant banks
4. Development banks
5. Savings bank
6. Mortgage bank

COMMERCIAL BANK

Commercial banks are financial institutions which accept deposits and other valuables from the public for safe keeping, with the sole aim of making profit. They are owned by private individuals, institutions or governments. Examples are; First bank, Zenith bank, Wema bank, Access bank etc

CHARACTERISTICS OF COMMERCIAL BANK

1. Commercial bank is a limited liability company
2. The motive of its establishment is profit making
3. They are members of the money market
4. Commercial banks are Incorporated
5. They accept deposit and other valuables.

FUNCTIONS OF COMMERCIAL BANKS

1. *Acceptance of deposit*: - Commercial banks accept deposits from the members of the public on current, fixed deposit and savings account.
2. *Lending of money*: - Commercial banks grant advances to customers in the form of loans, overdrafts, discounting of bills of exchange and promising notes.
3. *Agent of payment*: - They make payments on behalf of their clients and exercise agency services on behalf of their client.

4. *Safe keeping of valuables*: - They safe-guard customers' important documents such as certificates, jewels, bills, deeds and other valuables.

5. *Discounting bill of exchange*: - They help to discount the bills for their customers before the maturity date. They charge commission for this service.

6. *Issuance of bank statement*: - They help their customers to print out their account statement on demand.

7. *Investment and stock exchange transaction*: - They transact business on stock exchange market.

8. *Issuance of traveller's cheque*: - This type of cheques enables their customers to have money in any country they go. It is called international currency.

9. *Foreign exchange transaction*: - They act as agent of the central bank in carrying out this function. The foreign currency is made available to the residents of the country by the commercial banks in accordance with the Central Bank regulation

10. *Provision of financial advice*: - They offer business advice to their customers who are important as giving those loans and overdraft. They can advise their customers on such matters as income tax, on execution of the deceased properties etc,

11. *Act as executor for their customers*: - They act as guarantor to their customers who are buying goods on hire purchase and defer payment.

Types of Bank Accounts

1. *Current account*: is the type of bank account usually operated by businessmen and organisations and is required if a customer wishes to make payments through cheques.

2. *Savings account*: it is the most common form of bank account. It is operated with the use of passbook.

3. Fixed deposit/ time account deposit: It is the type of account that is usually operated by individuals and organisations who have excess liquidity.

SAVINGS ACCOUNT	CURRENT ACCOUNT
1. Customers are issued with passbook	1. Customers are issued with cheque books
2. It attracts interest	2. No interest is given to customers
3. Only the holder can withdraw from the account	3. Other people issued with a cheque can withdraw fro
4. Withdrawal is occasional if interest is to be given	4. Withdrawal can be frequent.

CREDIT FACILITIES PROVIDED BY COMMERCIAL BANKS LOANS: Through loan, money is lent out to customers at an agreed rate of interest for a specific period of time.

1. **OVERDRAFT:** Overdraft is a method of credit facility in which a customer is allowed or permitted to draw a cheque more than the amount of money in his account.

Differences between loan and overdraft

LOAN	OVERDRAFT
1. Collateral security is required	1. Collateral security may not be required
2. It attracts lower rate of interest	2. It attracts higher rate of interest
3. The money is repayment at a fixed time	3. There is gradual deduction from the customer's acc
4. A separate account called loan account	4. No separate account is opened.

Ways by which Commercial Banks Create Credit or Money

Credit or money creation refers to the process whereby commercial banks make it possible for more deposits to be made through loans or overdraft. Bank lending in form of loan or overdraft increases the quantity of money in circulation, which in turn increases the purchasing power of the people. This is because the bank credits the amount borrowed thereby creating new bank deposits. The total purchasing power increases by the amount loaned out. This is why it is said that bank lending creates credit or money.

LIMITATIONS TO CREDIT CREATION OF COMMERCIAL BANKS.

The power of commercial banks to create money is not infinite or limitless. In short, the ability of commercial banks to create credit depends on the following:

i. The banking system is comprised of many banks.

ii. Money creation will not be possible if people do not keep their money in the banks.

iii. The process will not be possible or work if people are not willing to borrow.

iv. The credit creation will be difficult if banks are not willing to give loans and advances to the people.

v. The ability of banks to create money will reduce if the legal reserve requirement is high.

vi. The ability of borrowers to present acceptable collateral security to banks.

vii. Total amount of money in the circulation will affect credit creation. The more the money in circulation, the more the credit creation.

viii. The rate of interest charged by commercial banks on loans granted to members of the public.

CENTRAL BANK

It is the highest financial institution in a country which carries out the monetary policy of the government. It is the sole authority in the banking industry which acts as banker to the government and the commercial banks. Central bank controls and regulates the supply of money.

CHARACTERISTICS OF CENTRAL BANK

1. Central bank is not profit oriented
2. There is only one central bank in a country.
3. It is the highest financial institution
4. Central bank is established by the Act of Parliament.
5. It is owned by the government.
6. There is no transaction with private individuals.

FUNCTIONS OF THE CENTRAL BANKS

1. *Banker to the government*: - The CBN was established by the federal government to monitor or direct monetary affairs of the country. It keeps the finances and all accounts of the government. Issuance and control of currency: - CBN is the only authority empowered to issue currency notes and coins that are used as a medium of exchange in the country.
2. *Banker's bank:* - CBN acts as bank to commercial banks, merchant banks, development banks, discount houses, microfinance banks and all other banks in Nigeria. Each banks in Nigeria have a bank account with CBN from where they settle debts between themselves.
3. *Lender of last resort*: - CBN lends funds to banks in financial difficulties. CBN is where other banks run to borrow and to discount bill of exchange.
4. *Foreign exchange transaction*: - It is the responsibility of CBN to promote stability in the rate of exchange of naira vis-a-vis the foreign currencies in the international trade.

5. *Management of national debt*: - It is responsible for the management of domestic and external debts of the federal government.

6. *Maintenance of external reserves*: - CBN is the watch dog of external reserves on behalf of the federal government. It also gives advice to the government on what to do if the foreign reserves are falling.

7. *Responsible for monetary policy:* - The CBN formulates and implements monetary policy with the primary objectives of promoting price stability, maintenance of balance of payments, etc.

8. It formulates of rules and regulations guiding the banking industry

9. External business- IMF, World Bank

How Central Bank Controls the Commercial Banks.

The following instruments are used;

1. Open Market Operation (OMO)
2. Liquidity ratio or cash ratio
3. Bank rate
4. Special directives
5. Special deposit
6. Moral suasion

   1. **Open Market Operation (OMO):** It is the purchase or sale of government securities in the open market to expand or restrict the volume of money in circulation. The central bank applies this policy with the aim of regulating the volume of money in circulation. When there is too much money in circulation, the central bank will sell securities. But in order to expand the volume, it buys securities.

   2. **Liquidity ratio or cash ratio:** The commercial banks are mandated by the government to keep a special proportion, e.g. 25%, of their total deposit with the central bank in order to control the volume of credit. The size can be expanded or contracted depending on the economic condition of the nation.

   3. **Bank rate:** Bank rate is the minimum rate of interest charged by the central bank for discounting bill of exchange. By lowering or raising the rate, the central bank can control the activities of the commercial banks. When the rate increases, loan to the public (customers) reduces, while a fall in the rate will encourage more loans.

   4. **Special directives:** The central bank can issue directives or specific instructions to the commercial banks and other financial institutions to restrict their lending or

credit policy or on the direction to which loaning should follow. They will be told to direct their funds to sectors which are in need of investment.

5. **Special deposit:** it is also an instrument of monetary policy which is used to restrict lending. The central bank can order the commercial banks to have special deposits, usually a percentage of the banks' deposits, to be made with it. This is intended to control credit and is often used during the period of inflation to reduce cash with banks. The central bank will mandate the commercial banks to keep special deposit over the statutory requirement.

6. **Moral suasion:** the central bank can make an appeal to the commercial banks to restrict or expand the level of credit to the public. Moral suasion is not based on the use of force but an appeal to restrict or expand the lending policy.

Central Bank	Commercial Banks
1. It does not accept deposit from the public	They accept deposits from the public
2. It formulates and executes monetary policies	They do not formulate monetary policies
3. Central bank is owned by the government	They are usually owned by the public or governme
4. It is accountable to the federal government.	They are accountable to the shareholders.
5. It manages the national debt	They do not manage national debt.
6. It is responsible for issuing of currency	They do not issue currency
7. Only one central bank exists in a country	Many commercial banks exist in a country
8. It is not set up to make profit	They are set up to make profit
9. It serves as banker to the banks and government	They serve as bankers to individuals and institutio
10. It is established by an Act of Parliament.	They are established by incorporation.

Development Banks

Development banks are specialised financial institutions which provide long term credit or loan to other enterprises for capital projects. They provide loans for projects in the area of agriculture, commerce and industry. Examples of development banks in Nigeria are Nigeria Industrial Development Bank (N.I.D.B), Nigerian Bank for commerce and Industry (N.B.C.I) and Nigerian Agricultural and Co-operative Bank (N.A.C.B)

Functions of development banks

1. They provide funds form of equity to development project.
2. Development Banks provides long term and medium-term finance/loans for commerce, industry and agriculture as well as general development projects
3. They raise bilateral and multilateral loans from national agencies like United State Agency for International Development (USAID) from international donor agencies like the World Bank.
4. They provide promotional activities such as identifying and properly articulating investment proposals.
5. They facilitate the establishment of institutions and enterprises which will fill specific gap in the financial system.
6. They help to quicken the pace of economic development.
7. They provide entrepreneurial skills to their clients in project preparation and evaluation.
8. They provide managerial assistance to their clients in project preparation and implementation
9. They provide their clients with technical skills and advice at the preparatory and implementation stages of projects.

Merchant Banks

Merchant banks are financial institutions which perform specialised functions, such as acceptance of bills of exchange, issuance of loans for foreign trade transactions, issuance of new shares, and provision of medium and long term loans. They are sometimes referred to as acceptance houses. In the past, merchant banks were merchants who specialised in trade with particular parts of the world.

The first merchant bank in Nigeria was the Nigerian Acceptance Limited (NAL) established in 1966. There are many merchant banks in Nigeria today. These include: ABC Merchant Bank, Merchant Banking Corporation, Merchant Bank of Africa, First City Merchant Bank, Intercontinental Merchant Bank, Ivory Merchant Bank, etc

Functions of merchant banks

1. They discount bill of exchange
2. They give loans to foreign traders
3. They give valuable advice to companies
4. They underwrite shares
5. They provide long-term loan

6. Trust management
7. Management of merger bid
8. Loan syndication
9. Provision of corporate management services
10. Acceptance of large deposit
11. Equipment leasing

Mortgage Banks

Mortgage banks are financial institutions that specialise in granting loans to individuals and corporate bodies for building purposes. Such loans are repaid by instalments and can be spread over several years.

Mortgage banks accept deposit from the investing public at a rate of interest and use the fund to lend, at a higher rate of interest, to people who wish to purchase their own houses.

Functions of mortgage banks

1. Acceptance of deposit
2. Provision of long term loans
3. Development of mortgage institutions
4. Give advice on housing matters
5. Provision of houses

Insurance Companies

Insurance companies are financial institutions that are concerned with insurance. Insurance may be defined as a contract between an insurer and an insured, under which an insurer promises to indemnify (compensate) the insured against loss, which he may suffer in future, upon the payment of a premium. It is a provision made by an individual or an enterprise against the occurrence of some future loss.

There are certain risks which can be insured against. Examples include risks of fire, burglary or theft, accident, loss of goods in transit, untimely death, bodily injury to factory workers, etc

Functions of insurance companies

1. It facilitates international trade
2. It offers investment opportunities
3. It leads to risk reduction
4. Provision of security
5. Provides a means of savings
6. It serves as collateral security
7. Motivation of workers
8. Provision for old age and disability.

WEEK 5

SUBJECT: ECONOMICS

CLASS: SS1

TOPIC – MONEY DEMAND FOR AND SUPPLY OF MONEY

CONTENT: -

(1) Determinants of supply and demand for money

(2) Value of money and the price level

SUB-TOPIC: - THE SUPPLY OF MONEY

The supply of money implies that entire stock of money in an economy and it consists of the bank notes, coins and bank deposits. It is important to note that the above definition of money supply is like that because of the existence of other assets that can be converted to cash. These are called "near monies" since they can converted into currency as well even though at a cost.

DEMAND FOR MONEY

The demand for money means the desire to hold money in liquid or cash form as against spending the money. It is also the desire for money to serve as a medium of exchange and simultaneously serve as a store of value.

<u>Reasons and motives why people demand for money</u>

(1) The transaction motive: - It is the desire to hold money for the everyday transactions

that take place such as paying transport fares and purchasing food items.

(2) The precautionary motive: - money is held in order to meet thee needs arising from unplanned or unforeseen circumstances such as sickness or accidents. It is often referred to as holding money for the “rainy day”.

(3) The speculative motive: - This is the desire to hold money in order to meet future expectations such as for investment purpose and expected fall in the prices of commodities.

EVALUATION

(1) Define supply of money and demand for money?

(2) State three reasons or motives why people demand for money

Sub-Topic 2: THE VALUE OF MONEY AND THE PRICE LEVEL

The value of money refers to the quantity of goods or services that a sum of money can buy at a point in time. The value of money is not state static as it changes from time to time with price as its indicator. The value of money is equivalent to the amount of goods and services it can buy. When the price level increases, a naira will buy less. If prices double, the value of money will be halved. The value or purchasing power of money is inversely related to the level of prices. In other words, the value of money refers to the purchasing power of money. It is measured through the use of an index number

FACTORS THAT DETERMINE THE VALUE OF MONEY

(1) General price level

(2) The supply of money and its speed or velocity in circulation.

(3) Inflation and deflation

(4) Volume of production of goods and services

MEASUREMENT OF VALUE OF MONEY

The value of money as well as the nation’s cost of living is measured by the use of price index, which is also called index of retail prices.

Price index/ index number $= \frac{\text{price in the current year}}{\text{price in the previous year}} \times \frac{100}{1}$

Example:

Assuming that price of a packet of biscuit was ₦30.00 in 2016 but rose to₦40.00 in 2017.

Calculate the index number.

Solution

Index =$\frac{\text{Price index in 2017}}{\text{Price index in 2016}}$**×100**

$= \frac{40}{30} \times \frac{100}{1}$ **= 133.33%**

From the calculation, assuming the index of the base year is taken to be 100, it then means that the index rose from 100 to 133.33. It equally means that the price of a packet of biscuit rose by 33.33% between 2016 and 2017. It can also be concluded from the above calculation that the money fell by 33.33% between 2016 to 2017. Thus, the cost of living rose in that period.

The Price Indices

The price indices can be defined as statistical methods used to measure the changes in the value of money over time. It measures the real changes in the prices of certain groups of items.

Importance of Price Index

(1) It can be used to determine how much a unit of money is worth over a particular period.

(2) It can be used to determine the level of well being or the standard of living of the individual.

(3) It can be employed by the government to determine the step to take concerning taxation.

Limitation of price index

(1) The choice of commodities to use in the compilation of the indices

(2) The choice of the appropriate base year

(3) The possibility of change in the quality of the goods

(4) Determining the right weight to use

(5) Using price indices to measure the welfare of individual

THE QUANTITY THEORY OF MONEY

The quantity theory of money is defined as the relationship between the quantity of money in circulation in an economy and the price level.

The quantity theory of money is one of the theories that try to explain what happens when there is an imbalance between the demand for money (by households and firms) and the supply of money to these economic units. The theory explains that if people hold more money than they require (i.e. if there is an excess supply of money over demand), they will spend the surplus on currently produced goods and services. This will increase the price level.

According to this theory, the value of money is determined not only by the supply of money (i.e. the quantity of currency in circulation) but also by the rate at which money circulates and the quantity of goods and services available.

It is shown in the following equation: MV = PT

Where M = supply of money

V = velocity of circulation of money

P = price level

T = quantity of goods.

EVALUATION

(1) State four factors that determine the value of money

(2) What is price index

(3) Explain any three importance and any three limitation of price index.

WEEKEND ASSIGNMENT

PRE-READING ASSIGNMENT

Read historical development and functions of money

WEEKEND ACTIVITIES

Differentiate between instruments used in capital and money market

WEEK 6

CLASS: SS 2

TOPIC: Inflation

CONTENT: 1.Meaning of Inflation

2. Types of Inflation

3. Causes of Inflation

4. Effects of Inflation

5. Control of Inflation

Sub-Topic 1: INFLATION

Inflation can be defined as a high and persistent rise in the general price level. It is defined as a condition where there is rise in the average level of price. It is a situation in which supply is not keeping pace with demand and a situation in which too much money is chasing too few goods.

While anything that tends to increase price is termed inflation and anything that tends to reduce price is termed deflation, it is not every price increase that is inflationary. A ''Once and for all Increase'' in the price level may not be tantamount to inflation.

Types of Inflation

1. *Demand Pull Inflation*: It is usually caused by excessive demand with supply persistently falling short of it. This may be brought about by increase in personal incomes, increase in wages as well as increase in government expenditure, etc. The resultant excess demand leads to an increase in the price level.

2. *Cost Push Inflation*: The cost pull inflation occurs when there is continuous rise in the cost of production. The increase in the cost can be in the form of higher wages demanded by workers or an increase in the cost of raw-materials. When such increase in costs is passed on to the consumers in the form of higher prices, the we have cost push inflation.

3. *Hyper Inflation*: also known as galloping or run-away inflation. It occurs when there is great increase in government spending. The prices of goods skyrocket and money rapidly loses its value and becomes worthless.

4. *Chronic Inflation*: This type of inflation between 20 and 100% and it goes on for several decades. The danger there is that this inflation results to a situation where people spend much money to buy tangible goods such as houses.

5. *Creeping Inflation*: Inflation in a country is described as creeping when it is persistent but kept relatively low. Sometime, it is described as creeping and sometimes it is described as trotting.

Causes of Inflation

In developing countries, such as most West African Countries, inflation may be caused by many other factors other than the ones discussed under types of inflation. The factors are explained below:-

(a) *Low production of food*:- Most developing countries especially in been keeping pace with the population growth rate. The movement of people from rural to urban areas has also worsened the situation.

(b) *Inefficient Distributive Process:*-The system of good distribution in developing country particularly the West African Countries is clearly inefficient. Poor transportation system hampers distribution, resulting in shortage of supply and by extension increase in price when supply is at disequilibrium with demand.

(c) *Over reliance on imported goods*:- Developing countries usually over-rely on importation of goods to meet local demand. When there is inflation in a country where they import goods from, there will be unavoidable rise in the domestic price level.

(d) *Poor Storage Facilities*:- Facilities for storage are usually outdated and unreliable. This has affected agricultural production seriously.

(e) *Hoarding:-* Uncontrolled ambition of many producers and distributors to get more than normal profit has compelled them to hoard goods. Consequently, there is shortage of goods and prices are forced to go up.

(f) *Increase in demand:* - When the demand for goods and services is greater than supply, this results in inflation.

(g) *Low production*: - Low production of goods and services can lead to their scarcity and when supply cannot meet up with high demand, then inflation will result.

(h) *War:* - This is a major cause of inflation as people no longer produce, resulting in high volume of money pursuing fewer goods.

(i) *Increase in salaries and wages*: -Excessive increase in the earnings of all categories of labour relative to productivity thus leading to ‘too much money facing too few goods’.

(j) *High cost of production*: - When there is high cost of production, manufacturers pass the high cost to consumers leading to cost push inflation.

(k) *Budget deficit*: - When government spends in excess of expenditure, it leads to inflation.

(l) *Population increase*: - A sudden rise in population will lead to increase in demand. If there is no corresponding increase in supply, it leads to inflation.

(m) *Excessive bank lending*: - This will increase the volume of money in the circulation which will result to excessive demand over supply which will in turn result to inflation.

(n) *Level of importation*: - High cost of importing raw-materials will be passed to consumers as increase in the price of the commodity which will lead to inflation.

(o) *Industrial strike*: - Prolong strike can lead to shortage of production(scarcity) which can also lead to inflation.

EVALUATION

1. Define Inflation
2. State five type of inflation
3. List five causes of inflation

Sub-Topic 2: Effects of Inflation

Inflation has both desirable and undesirable effects

1. It leads to increased earnings and higher profits on the part of businessmen.
2. Reduction in burden of debt i.e. debtors gain.
3. Higher tax yield from high salary.
4. There will be increased investment/ higher output.
5. There will be increased employment as a result of large scale production.
6. Inflation redistribute income- income is redistributed haphazardly. There is a fall in real income of fixed income earners. E.g. pensioners.
7. It discourages saving and investment
8. *Creditors loss* : The value of money received is far more less that the value of money lent out
9. *Loss of value of money:* Money loses its value during inflation.
10. *Fall in standard of living*: The cost of living is high and this leads to the fall in living standard of people.
11. *Balance of payment problems*: Foreigners will want to sell and also do little purchasing from country with inflation
12. *It discourages exports*: The products of the country will be costlier in international market thereby discourages export.

EVALUATION

(1) Explain the negative and positive effects of inflation.

(2) What are the effects of inflation on distribution of incomes and production

Sub-Topic 3: Control of Inflation

Generally, the causes of inflation must be determined before a solution can be provided. One or a combination of the following methods can be used to combat inflation.

(1) *Price control*: Government can control inflation by fixing maximum prices for both raw-materials and finished goods and ensuring adequate implementation of such a policy

(2) *Increased supply*: Necessary raw-materials and basic facilities like water and electricity should be made available to encourage high increase in manufactured goods, to match demand.

(3) *Wage Control*: Income policies like wage freeze and delay in promotions is equally a way of controlling inflation.

(4) *Raising Bank Rates*: Increase in bank rate will discourage people from taking loan for investment. This will reduce the volume of money in the circulation.

(5) *Open Market Operation*: Central bank can use contractionary measures like selling securities to commercial bank in order to reduce their ability to grant credit to people.

(6) *Reducing government deficit financing*: The government should cut down its budget deficit financing thereby reduce the magnitude of money supply in the economy.

(7) *Industrialization*: This will reduce over-reliance on imported goods and bring about increase in output which will reduce prices

(8) *Checking the activities of hoarders*: Hoarders increase the price of goods unnecessarily, therefore, their activities must be controlled as this will curb inflation.

(9) *Increased production*: Production could be increased as this will bring down the prices of goods.

(10) *Granting of subsidy to enterprise*: The companies producing essential goods should be given subsidies in order to reduce the cost of production and the

products prices.

Sub-topic 4: DEFLATION

By definition, we mean a time when most prices and cost are falling.

It can be defined as a situation of continuous or persistent fall in the general price level. It is often associated with economic recession and caused by a persistent fall in aggregate demand which compels the producers to sell at continuously falling prices.

Causes of Deflation

(1) *Government Policy/ excessive use of fiscal policy*- High tax rate which reduces disposable income

(2) *Excessive supply over demand* : An unusually good weather conditions can cause an over-production of agricultural products and, hence, lower prices.

(3) *Increase in bank rate* : This discourages commercial banks from borrowing from Central Bank and this reduces the ability of commercial banks to lend money, leading to reduction in the volume of money in circulation.

(4) *Budget surplus* : Government policy to spend less than the total revenue will mean too little money in circulation.

(5) Increase in bank rate/ restriction on bank lending

(6) *Increase in production* : Increase in the production of goods without corresponding increase in the volume of money in circulation can lead to deflation.

(7) *Increase in taxation* : When government increases tax, it will definitely reduce the volume of money in the circulation thereby causing deflation

Effects of Deflation

(1) *Increase in export and decrease in imports* : The exported goods are very cheap in the world market and attract customers while imported goods will be costly, so people will be discouraged from buying imported materials.

(2) *Unemployment:* Deflation brings about unemployment in the labour market.

(3) *The businessmen lose as profit margin dwindles*: Low money in circulation leads to decline in profits.

(4) *Fixed income earners gain in the income redistribution*: Fixed income earners gain

because wages are fixed and they are able to buy more goods and services.

(5) *Fall in prices of goods*: The prices of goods and services tend to fall during deflation because the volume of money in the circulation is very low.

(6) *Reduction in investment*: Low saving leads to low investment.

(7) *Increase in value of money*: There is increase in the value of money due to the fact that its supply is lower than its demand.

Control of Deflation

(1) *Reduction in taxation*: This enables people to have more money, thereby increasing their purchasing power and controlling deflation.

(2) *Use of deficit budgeting*: An increase in government expenditure helps to inject more money into circulation by curbing the effects of deflation.

(3) *Reduction in bank rate*: This assists investors to borrow more from banks, thereby increasing the volume of money in the circulation.

(4) *Increase in wages and salaries*: This helps to inject more money into circulation, thereby controlling deflation

(5) *Use of open market operation*: CBN buys securities from commercial banks to be able to lend money out and increase the volume of money in circulation.

EVALUATION

1. Discuss to the extent that you can, the term inflation.
2. Identify two losers and two gainers during inflation
3. What are the effects of deflation in an economy?
4. How can inflation be controlled?

Sub-Topic 5: Inflation in Nigeria

Inflation in Nigeria can be traced to the period of the civil war. That was the time Nigeria began to experience inflation or general rise in the price level. Attempt is made below to look at the trend in the inflationary woes in Nigeria.

(1) The civil war which took place between 1967 and 1970 triggered inflation. There was a general increase in the prices of goods and services. War occasions inflations.

(2) Series of increases in wages not coupled with commensurate level of productivity following the oil boom have increased the purchasing power of people and triggered demand with supply not recording any significant improvement.

(3) Improperly checked importation of commodities has had its share of the blame. A lot of Nigerians have developed a taste or preference for foreign made products.

Measures taken by the Government to control Inflation in Nigeria

(1) The Federal government established the price control board in 1971. The board was charged with the responsibility of fixing the retail prices of certain essential commodities.

(2) The administration of Olusegun Obasanjo and that of Shehu Shagari introduced the Operation Feed the Nation (OFN) and the Green Revolution respectively.

(3) The government in spite of occasional concessions has resisted several pressures from the labour union to increase the salaries of workers in the public service.

(4) The government has curbed inflation through its agency, the West African Marketing Boards which kept the income of the farmers relatively stable by regularizing the amount of prices paid to them annually for their cash crops.

(5) Since the return to democratic rule, the government has been pre occupied with working out of measures aimed at improving the level of capacity utilization. The ultimate goal is to work towards increased production which is capable of alleviating the problem of inflation.

EVALUATION

(1)State the trend of inflation in Nigeria.

(2)List five measures taken by the government to control inflation in .

Nigeria

WEEK 9

SUBJECT: ECONOMICS

CLASS: SS 2

TOPIC: *MANUFACTURING AND CONSTRUCTION INDUSTRY*

CONTENT: 1. Development of manufacturing industry in Nigeria

2. Problems confronting manufacturing industry

3. Roles of manufacturing industry in economic development

Sub-Topic 1: Manufacturing and Construction Industry

Manufacturing industry refers to the turning of raw-materials into new products by mechanical or chemical processes at home (cottage) or in the factory. It is concerned with the activities of those who engage in processing and turning raw-materials produced in the primary industry into finished products. Examples are shoe making, food processing, plastic processing and textile processing.

Construction industry is concerned with all the activities of those who engage in assembling of goods into useable form. They convert manufactured products into various uses. Examples are: road construction, building construction, airport construction, bridge construction, furniture construction, etc.

ROLES/CONTRIBUTIONS/SIGNIFICANCE OF INDUSTRIAL SECTOR TO ECONOMIC DVELOPMENT

1. Industrial activities help in solving the basic problems of unemployment, inflation, budget deficit and general economic disequilibrium;

2. It assist to implement the policies of the government that have been directed towards the improvement of local production;

3. It will reduce the continued pressure on balance of payment in spite of the various policy measures taken so far to address the situation.

4. It stimulates the growth of other sectors like agriculture, mining and lumbering.

5. The establishment of an industry in a place stimulates the development of infrastructures like road, telephone, electricity and pipe borne water.

6. It helps different countries to prevent over dependence on only one product like the present Nigeria's over.

7. It provides jobs for many people.

8. Many people are trained in different technical areas in order to manage the different aspects or machines in an industry.

9. The industrial sector provides capital for funding of education and research work in all nations.

PROBLEMS OF MANUFACTURING INDUSTRIES

1) ***Shortage of raw materials***: Inadequate raw materials available to industries hinder large scale production.

2) ***Insufficient Capital***: Access to finance or loan is very difficult. It is only for big investors who possess collateral securities.

3) ***Poor quality of industrial labour***: Majority of Nigerians are illiterate who cannot fit into industrial sector.

4) ***Shortage of entrepreneur***: Reliable investors are not common in Nigeria owing to lack of capital and some other factors.

5) ***High degree of foreign dependence***: People highly rely on imported materials since some of the locally-made products are of lower quality.

6) ***Inadequate transport and communication facilities***: Transportation network like road, rail, and communication networks are not enough to accommodate heavy industries.

7) ***Small market for industrial goods***: Nigerians does not have enough purchasing power to purchase industrial goods therefore for them is very low creating small market.

8) ***Poor management***: Corruption, embezzlement and negligence of duty are very common in African countries and these are indicators of poor management.

9) ***High cost of spare parts***: Industrial machines imported into developing countries may break down. In most cases, spare parts for those machines are not readily available in our market.

10) ***Political Instability***: Frequent changes in governments and frequent civil wars discourage foreign investors.

SOLUTIONS TO INDUSTRIAL PROBLEMS

1) Skill should be acquired by people through regular training

2) There should be good government policies to protect local industries
3) There should be active government participation in industrial development i.e. co-ownership of companies
4) There should be incentives e.g. tax holiday. To local industries.
5) There should be provision of good transport facilities in order to move raw-materials to factories and finished products to market.
6) Government should set up industrial banks to give long term loans to investors for industrial purposes.
7) Government should actively be involved in industrial development.
8) Infrastructural facilities such as electricity, communication system, water etc should be provided adequately.
9) There should be stable government in order to attract foreign investors
10) There should be local exploitation of raw-materials for industries so as to reduce the cost of production.

EVALUATION:

(1) List three problems confronting manufacturing industry in Nigeria
(2) State seven significance of manufacturing industry in Nigeria
(3) Highlight seven problems facing industrial sector in Nigeria.
(4) Proffer solutions to the problems highlighted above.

WEEKEND ASSIGNMENT

(1) Explain the contribution of manufacturing industry to Nigeria GDP
(2) Explain the relationship between manufacturing and construction in economic development

PRE-READING ASSIGNMENT: Read about service industries

WEEK 10

SUBJECT: ECONOMICS

CLASS: SS 2

TOPIC: *SERVICE INDUSTRIES*

CONTENT: 1. meaning of service industries

2. List of service industries

3. Contribution of service industries to development

Sup-Topic 1: SERVICE INDUSTRIES

The service industries involve the provision of services to business as well as to final consumers. It can also be called tertiary sector of industry. Services involved doing something for the consumers, which could be personal or indirect services. Service industries are: tourism, transport, banking, insurance, warehousing, and advertisement.

Sup-Topic 2: TYPES OF SERVICE OCCUPATION

Service industry can be divided into direct and indirect service.

1) ***Direct Service***: This includes personal services rendered for direct consumption and are paid for directly by those who enjoy the service. Those who engage in this form of services are: housemaids, stewards, entertainers, barbers, family doctors, lawyers in private practice, etc.

2) ***Indirect Service***: Indirect service includes services rendered to the general public but they are not paid for by the members of the public directly. The government will pay from taxes and levies paid by the public. Therefore, those involved render indirect services and are paid indirectly by the public, e.g. doctors working in public hospitals, police force, soldiers, customs officers, civil servants, law makers, etc.

Sub-topic 3: ROLES OR CONTRIBUTIONS OF THE SERVICE INDUSTRY TO ECONOMIC DEVELOPMENT

i. Service industry provides employment opportunity through its activities in trading, banking, transportation, communication, etc.

ii. Service industry generates revenue for government and people who are engaged in the industry.

iii. Service industry aids trade through its communication, transportation, banking, etc

iv. It diffuses new ideas and technology is transferred from one country to another.

v. It stimulates growth of other sectors like manufacturing and construction industry.

vi. The service industry helps to diversify economy through its branches like tourism.

vii. Through service industry, different regions in the country are brought in constant touch with one another

viii. The service industry through its activities in the economy stimulates the development of infrastructures like roads, telephone, electricity, and pipe borne water.

EVALUATION:

(1) What is service industry?

(2) List ten service industries in Nigeria

WEEK 11—REVISION

WEEK 12 —EXAMINATION