CSEC Principles of Business
Handout
SECTION 1: THE NATURE OF BUSINESS

The development of economic activity

All people have three basic NEEDS- food, clothing and shelther, and many of the activities we engage in are aimed at satisfying those needs. Activity which results in the satisfaction of our needs is often referred to as 'economic activity' therefore, people are sometimes called 'economic animals'

Early people had a simple way of life. They would provide all of their needs themselves without the aid of others. This is called direct production. They were living in a subsistence economy- providing just sufficient to survive, but not to improve their way of life.

In time people learnt to plant seeds to grow what they wanted, and to pen animals. This resulted in less time having to be spent in searching for food. Early people were now able to improve their way of life by building a permanent home, and by making tools to improve ways of satisfying their needs. One of the results of these improvements was that people found that they were producing more goods than required. They were producing a surplus. They began to exchange goods for the surplus of others.

The barter system

Barter is a method of exchange in which one good or service is exchanged for another; no money is used. This was the way the earliest form of trade took place.

Advantages of the barter system

1) Surplus products are disposed of through the barter system.
2) Barter enables a person to get what he/she did not have or probably could not produce.
3) Trading could take place without money.
4) It set the stage for the sophisticated system of trade that exists today.
5) Countries with foreign currency problems can barter, and so save well needed foreign currency for the use of vital items such as drugs for the sick.

Disadvantages of the barter system

1) A person had to find someone else who wanted what he/ she had to exchange and that other person had to have what was needed before the exchange could take place.
2) If a person could not produce a commodity or good, it may have been difficult to locate or obtain it. So one was never always able to get what one wanted.
3) The true value of items or services was not always arrived at, and thus adequately paid for.

Problems associated with the barter system

- A double coincidence of wants
- An exchange rate
- Divisibility of goods
- Storage of wealth

Brief history from subsistence economy to money economy
Money
The development of money

The swapping of goods or service for goods or service worked well in the early stages of economic activity, although not without the disadvantages identified. Human beings, though, being the problem solvers, they were, continued seeking to correct and make trading easier by introducing money, a viable alternative to the barter system.

Money helped to reduce considerably some of the problems encountered in the barter system.

Characteristics of money

- It must be generally acceptable
- It should be relatively scarce
- It must be divisible
- It should be durable
- It should be portable
- It must be homogeneous

If these conditions are met, then the item or asset will become generally acceptable as money.

Functions of money

- Medium of exchange: this is the main function of money. It gives the consumer a freedom of choice which he would not possess under barter.
- Store of value: money can be stored for future spending. However, this function of money can be satisfied only if:
    - i) It retains its value
    - ii) Goods and services are available when required
- Means of deferred payment: money makes possible credit transactions. Because of this function business capital can be borrowed to finance production, consumers can buy goods on hire purchase or some other form of credit.
- Measure of value: money makes it possible for prices to be given to goods and services and therefore their values can be calculated.

The value of money

When looking at money as a store of value, it is said that this function can only work if money retains its value. We all know that when prices are high, a given unit of money can purchase fewer goods than when prices are low. The value of money then is related to its purchasing power, i.e., how much a given unit of money would buy. When prices are rising the value of money falls, and when prices are falling the value of money increases.

Definition and explanation of terms and concepts

Entrepreneurship

Entrepreneurship is showing enterprise skills of vision and creativity when taking risks to set up a new business venture.

Trade

Trade is the exchange of ownership of goods and services.

Organization

An organization is a person or group of people working together to achieve a common objective.

Economy

This is the system of production, distribution and consumption used by a society to allocate scarce resources.

Producer

A producer is a business that uses resources to make goods or provide services for sale.

Consumer

A consumer is an individual who buys goods and services for personal use and not for manufacture or resale.

Exchange

This is the process of giving up something to obtain another product.

Goods

Goods are tangible products that satisfy customers' needs

Services

Services are intangible products that satisfy customers' needs.

Market

Market refers to any situation that brings buyers and sellers together for the purpose of exchange.

Capital

Capital refers to resources used by a business, such as machines and equipment used in the production of goods and services.

Labour

This is human, mental and physical effort spent on production of goods and services, for which payment is received.

Instruments of exchange/payments:

- Barter
- Bills of exchange
- Electronic transfer
- Tele-banking and E-commerce
- Cheques
- Money order
- Debit cards
- Credit cards
- Bank draft
- Telegraphic money transfer
- Bank transfers
- M-money/mobile money and mobile wallets.

Barter

The exchange of one thing for another without the use of money is called barter.

Bill of exchange

The bill of exchange is a document that is sometimes used in home trade, but it is most commonly used in foreign trade. It is particularly used in the settlement of international debts. The bill of exchange is made out by the seller/exporter of the goods requiring that the buyer/importer pays a sum of money on demand, or an agreed future date (usually after three months)

Debit card

This is issued by banks to account holders to allow them to make immediate payments for purchases, by transferring money from that account holder account to that of the trader.

Credit card

A credit card is issued by banks and other financial institutions to account holders to buy goods from traders. Payments are made to the bank within an agreed period. It is a form of credit that banks and other financial institutions offer.

Cheques

This is a written instruction to a bank to request the transfer of a certain sum of money to the account of the payee

There are different types of Cheques. These are as follows:

1) Open cheques
2) Crossed Cheques
3) Managers cheque

Open Cheques

An open cheque is a cheque that is not crossed on the left corner and payable at the counter of the drawee bank on presentation of the cheque.

Crossed Cheques

A crossed cheque is one in which the drawer places two vertical or diagonal lines across the face of the cheque. A cheque that is crossed, under normal circumstances, cannot be encashed, but it must be lodged to the payee account.

Manager's cheque

This is issued by the bank and signed by the manager so that it becomes more acceptable to the receiver of the cheque. It is used in situations where a large sum of money is involved. The bank will verify that money is available from the bank customer's account before issuing this type of cheque.