

THE SCOPE OF COMMERCE

Definition of commerce:

Commerce is the study of exchange and distribution of goods and services from the point of production to the point of consumption to satisfy human wants.

AIM;

To bridge the gap between the producers and consumers.

TERMS:

1. **Goods**- are things which we can see and touch. Example; pen, books, tractor etc.
2. **Services** -are things which we can't see and touch but help in progress of life. Example; education, hair dressing, medical care etc.
3. **Needs** –are necessary things for man in order for man to live he needs food, shelter and clothes.
4. **Wants**-are not essential things to man in order for man to be happy in life and enjoy the life he want. TV, radio, car, mobile phone.
5. **Distribution**-The term distribution involves various ways of making goods and services available to the final consumer.
6. **Exchange**
 - The term exchange involves buying and selling of goods and services
 - Exchange constitute TRADE
 - This exchange can be through money as medium of exchange.
7. **Producer or seller** â”€Anyone who works for payment (money)
â”€Example;-Doctors, teachers, farmers, shopkeepers

8. Consumer or buyer

â”€ Anyone who buys goods or services

â”€ We are all consumers

BASIC HUMAN WANTS (NEEDS)

i.) Food ii.) Clothes

iii.) Shelter

CHARACTERISTICS OF HUMAN WANTS

i.) Unlimited ii.)

Satisfied iii.)

Complementary iv.)

Competitive

v.) Alternative

i.) UNLIMITED

Our wants are unlimited. We will always want more E.g. Mr. Patel wants to buy a shirt. He also wants a trouser. After he has brought some trousers he will want a pair of shoes and so on.

ii.) SATISFIED

-We cannot satisfy all our wants, but we can satisfy some of wants

-If you don't have enough money you can't buy everything you want but you can satisfy a certain want.

iii.) COMPLEMENTARY

-Things which go together that means if you want one thing you also want another thing.

Example; -Car Petrol
-Radio Batteries

-Tea Sugar

iv.) **COMPETITIVE**

-We want many things but we can't buy them all now. So we choose the one we want very much. Choice is among the thing we require most against the other.

v.) **ALTERNATIVE**

-There are different ways in which we can achieve or get what we want. Our wants have alternative.

Example; - by plane train

-Butter cheese

-Tea coffee

-Pen pencil

IMPORTANCE OF STUDYING COMMERCE OR WHY SHOULD COMMERCE BE STUDIED

- i.) The study of commerce exposes the business world to students.
- ii.) It simplifies the understanding of modern commercial methods. E.g. export/import goods and services to/from other countries using different units of currency.
- iii.) To know frequent changes which happen in commercial world and its effect to the public.

iv.) It enables both consumers and businessmen to know different marketing techniques i.e pricing, discounting, promotions. Etc

v.) It is useful for future specialization vi.)

Every individual is involved in commerce

vii.) It also enables students to understand pre-introduction of economic concept.

Assignment

1. Explain the following

a.) Human wants

b.) Human needs

2. Explain the basic human needs.

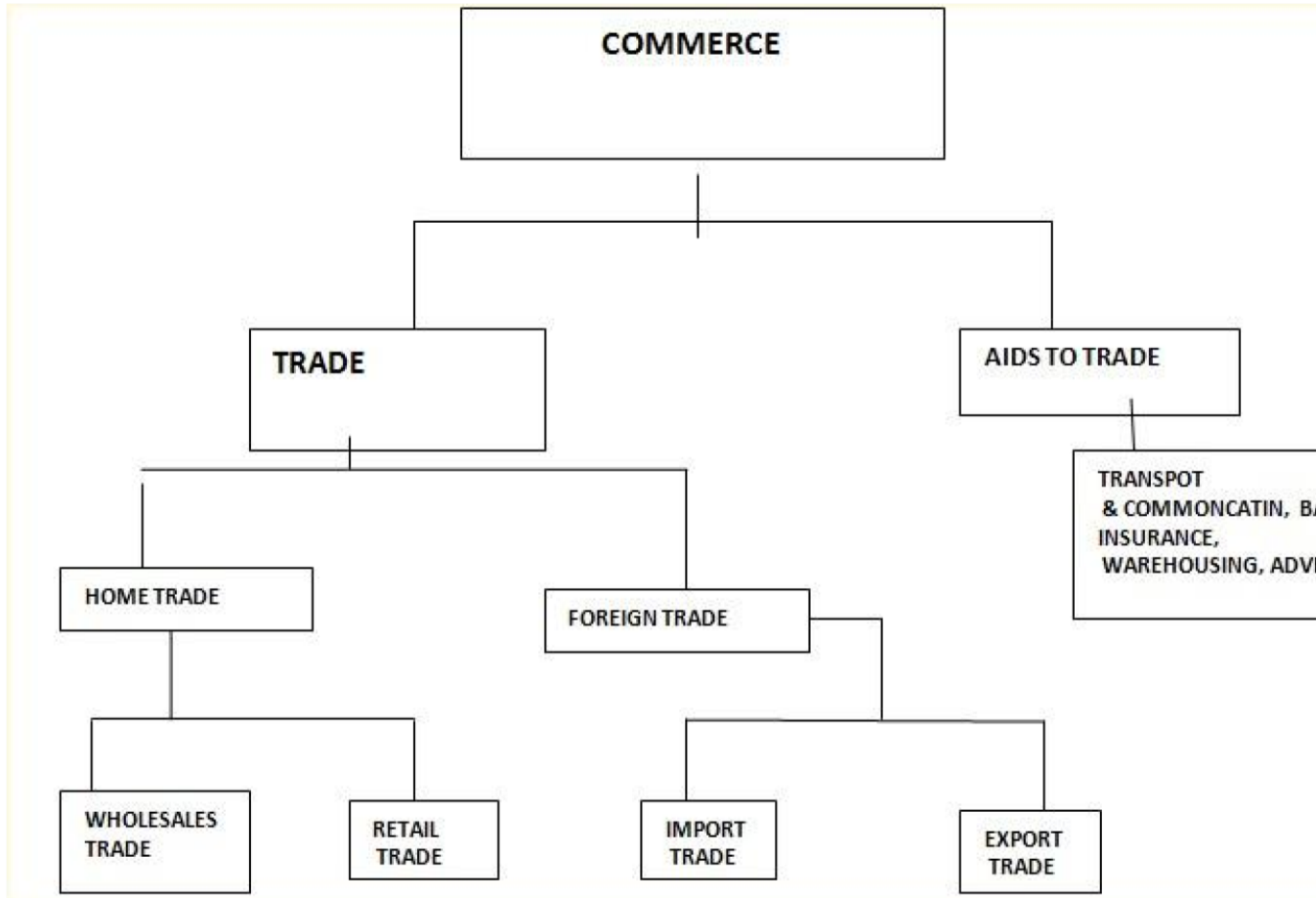
DIVISIONS OF COMMERCE/ BRANCHES OF COMMERCE

Commerce is divided into two main branches;

1. Trade
2. Aids to trade

Divisions of commerce are summarized in the figure below;

i.) TRADE



-Trade refers to buying and selling of goods and services with the aim of generating profit.

-Trade is the basic commercial activity which deals with the exchange of goods with goods or goods with money.

-A person who engages in trading activities is known as a Trader. -Trade is subdivided into two main branches;

a.) Home trade

b.) International trade (foreign trade)

HOME TRADE

Is the buying and selling of goods or services within a country -Home trade is divided into two main branches;

a.)Retail trade

b.)Wholesale trade

I.)RETAIL TRADE

-Is the buying of goods from producers or wholesalers and selling them in small quantities to the final consumer.

II.) WHOLESALE TRADE

-Is the buying of goods in large quantities from producers or manufacturers and selling in small quantities to the retailers.

INTERNATIONAL TRADE (FOREIGN TRADE)

-Is the trade between one nation and other nations. -International trade is divided into two types;

i.)Export trade

ii.)Import trade

I.)EXPORT TRADE

-It is the selling of goods and services to other countries

II.)IMPORT TRADE

-It is the buying of goods from other countries.

2. AIDS TO TRADE

- Are those services which help trade to take place smoothly.
- Aids to trade make trade less difficult to carry out.

Examples of aids to trade including the following;-

a.) **Transportation**

- This refers to the movement of physical goods and people from one place to another or
- Is the movement of goods from areas of production to the area of Consumption.

b.) **Communication**

- Is the transmission of information from one point or person to another point or person.

c.) **Warehousing**

- This refers to the storing of goods so that they are made available when and where they are required.

d.) **Banking/Finance**

- This includes the provision and management of money and credit necessary to transfer goods to the final consumer.

e.) **Insurance**

- This refers to the protection against risks like fire and theft.

f.) **Advertising**

- This is the art of making goods and services to be known to the public.

HISTORICAL DEVELOPMENT OF COMMERCE IN TANZANIA

-During the ancient time (Stone Age, primitive communalism) commerce did not exist in Tanzania.

-People lived by collecting wild fruits, digging roots and hunting animals by the use of stones.

They didn't have any want to satisfy their needs which was beyond the ability of a family or clan i.e. each family was self-sufficient and self-reliant. In other words there was no social division of labour and specialization.

-As time went on FIRE was discovered with the discovery of fire people started melting iron and making spears, arrows and hoes.

-After that, the developed group of people who used spears, arrows and bows for hunting wild animals, these were called HUNTERS while those who used hoes for cultivating were called FARMERS. So it means people performed different jobs. This was the development of DIVISION OF LABOUR because each group performed different jobs and also those were the early stages of SPECIALIZATION, INTERDEPENDENCE and DIVISION OF LABOUR.

-Now people began exchanging commodities produced by others.

-This exchange of goods was known as BARTER TRADE.

-This was the early stage of Barter Trade in Tanzania.

BARTER TRADE

-Is the exchange of goods for goods.

Advantages of Barter trade

1. The risk of theft is low compared to the risk of using money.

-All forms of money can easily be stolen than commodities.

2. The value of commodities tends to be stolen over a long time than the value of money which depreciates in value after a certain period of time.

3. Barter trade is useful where money is too scarce to be used as medium of exchange

-Example in rural areas barter trade is widely used due to scarcity of money.

4. The use of barter system makes the economy of a place not to be easily affected by economic problems like inflation.

Disadvantages of barter system

a.)Lacks of double coincidence of wants.

-Double coincidence of wants means that a person who has wheat and wants salt has to find a person who has salt and wants wheat. If he can't find such a person who wants wheat and has salt then barter trade cannot take place.

b.)Lack of measure of value.

-It is very difficult to decide how much quantity of one commodity to be exchanged for another commodity.

-For example, it is very difficult to decide how much quantity of maize must be exchanged with units of cow

c.)Lack of store of value

-Under barter system it is very difficult to store perishable goods such as(tomatoes, vegetables) and exchange for another commodities in future.

d.)Indivisibility of some items

-It is not possible to divide some commodities into smaller units in order to exchange with units of other commodities.

-For example, if a person has certain units of cloth and wants to exchange with some units of cow the exchange is very difficult because a cow cannot be divided into smaller units if the value of the units of cloth is not equal to the value of the whole cow.

e.) **Difficult of transporting some commodities**

-Due to lack of modern means of transportation and immobility of some items it is difficult to transport some items from one place to another for exchange.

COMMERCE IN THE MODERN WORLD

-With the coming of industrial revolution and introduction of machinery the division of labour or specialization became more popular.

Different individuals and localities (countries) specialized in the production of different commodities.

-There was specialization in various aspects;-

.In industry example a manufacturer could choose to produce a specific commodity

.In commerce traders (retailers or wholesalers could specialize in only one line of commodity.

.Even individual's example a doctor could be a dentist a pharmacist or surgeon

Teachers could specialize in subjects such as Book-keeping, Mathematics, and Economics and so on.

-Specialization leads to exchange. The products of one specialist need to be exchanged with those of another in the satisfaction of wants.

-Thus, modern commerce is a result of specialization

SPECIALIZATION AND DIVISION OF LABOUR

-Is the separation of jobs, activities and processes so that each person or group of persons concentrates on what he or they do best. Every person concentrates on what the performance of a particular activity.

SPECIALIZATION

- Is the Process of Concentrating on what he or she can do the best.

DIVISION OF LABOUR

- Is the process of divide or arrangement of labour in a particular activity.

Or

- Specialization is the arrangement of labour in such a way as to maximize the amount and quality of the output.

ADVANTAGES OF SPECIALIZATION AND DIVISION OF LABOUR

I.)Time and energy saving;

- No one worker does the whole process alone. This saves energy and the time that would be lost in switching from one job to another.

II.)Degree of choice;

- People have different natural abilities; Specialization enables individuals to choose those occupations for which they are most suited

III.) Developing skills;

- Specialization and division of labour develops skills to individuals through a process of learning by doing the same task repeatedly

IV.) Better standard of living

- Specialization leads to better standard of living because specialization leads to higher production, creating a wider choice.

V.)Physical toil is reduced through the use of machines.

VI.) It leads to efficiency because of the frequency of operation

VII.) Machinery is used more extensively and efficiently

DISADVANTAGES OF SPECIALIZATION AND DIVISION OF

LABOUR

I.) Boredom and monotony

-Have to do the same task over and over again becomes monotonous and can easily make a worker tired and bored.

II.) Greater risk of unemployment

-It may happen that too many people may opt to specialize in a certain field of work and that field may not be able to absorb all of them, hence unemployment.

III.) Limited form of production

-Specialization leads to a limitation in production. If the specialized community so on gets a better substitute the firm may decline

IV.) Depersonalization

-Specialization reduces human labour because of the application of complicated machinery.

COMMERCE AND ECONOMICS

-The main distinction between Economics and commerce is that;

-The subject matter of Economics is wider than the subject matter of commerce

-Economics deals with all activities involving production, distribution, exchange, consumption, scarce resources.

-Commerce is concerned with exchange and distribution

-Commerce is therefore a branch of Economics that deals with exchange and activities that facilitate exchange.

-This means that all the subject matter of commerce are studied in Economics but not all subject matters of Economics are studied in commerce

_COMMERCE AND BUSINESS

-The relationship between commerce and business can be described as follows;

-Business is wider than commerce

-Business refers to any activity carried out with the intention of making profit.

-Business includes both commerce and non-commercial activities

-Commerce applies only to activities that involve trade and aids to trade

PRODUCTION

Definition of Production;

-Production is any activity which results in the creation of goods and services in order to satisfy human wants.

OR

-Production is the process of creating utility.

What is utility?

-Utility is the ability of goods and services to satisfy human wants.

FORMS OF PRODUCTION/FORMS OF UTILITY

a.)Form utility

-This involves changing the forms of goods from raw materials into finished goods.

b.) Time utility

-This involves making the goods available at right time when needed

c.) Place utility

-This involves making the goods from the place of production to the place of consumption.

d.) Possession utility

-This involves transfer of ownership through the process of exchange.

TYPES OF PRODUCTION

There are two types of production

1. Direct production.
2. Indirect production

DIRECT PRODUCTION

-This is a kind of production where by an individual produces goods and services for his own use or personal consumption.

â”€Example, when a farmer produces maize for his/her own use not for sale.

â”€Direct production is also known as subsistence production.

INDIRECT PRODUCTION

-Is a kind of production whereby individuals produce goods and services for sale.

-Example, when farmers produce maize for sale.

BRANCHES OF PRODUCTION

There are three branches of production namely;

1. Industry
2. Commerce
3. Direct service

1. INDUSTRY

-Industries deal with changing the forms of raw materials into finished goods.

-Industries are classified into three categories according to the different stages of production.

a.) EXTRACTIVE INDUSTRIES (Primary production)

- These are industries which are concerned with extraction of raw materials (natural resources) from the earth crust.
- Examples are –farming, hunting, mining, and lumbering. Etc

b.) MANUFACTURING INDUSTRIES (Secondary production)

- These are industries concerned with changing the form of raw materials into finished goods by machines or hands.

c.) CONSTRUCTIVE INDUSTRIES

- These are industries that assemble already manufactured goods into finished products.
- Examples;-House building(builders) use cement, timber, bricks, iron, glass and paint which have been extracted and manufactured
- Other examples are; Car assembly, furniture making, radio assembly.

2. COMMERCE

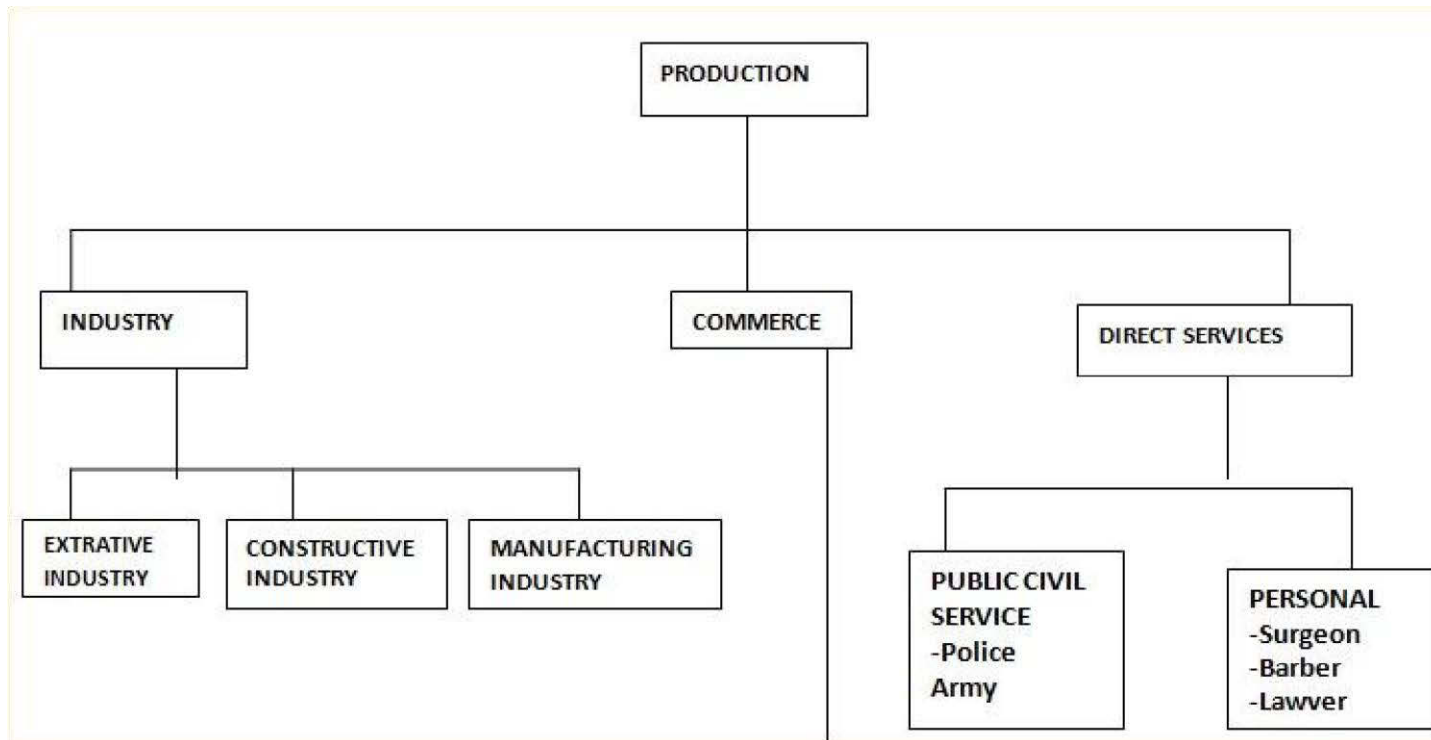
- The goods and services produced must reach the ultimate consumers
- The role of commerce in the production process is to make goods and services available to the consumers.

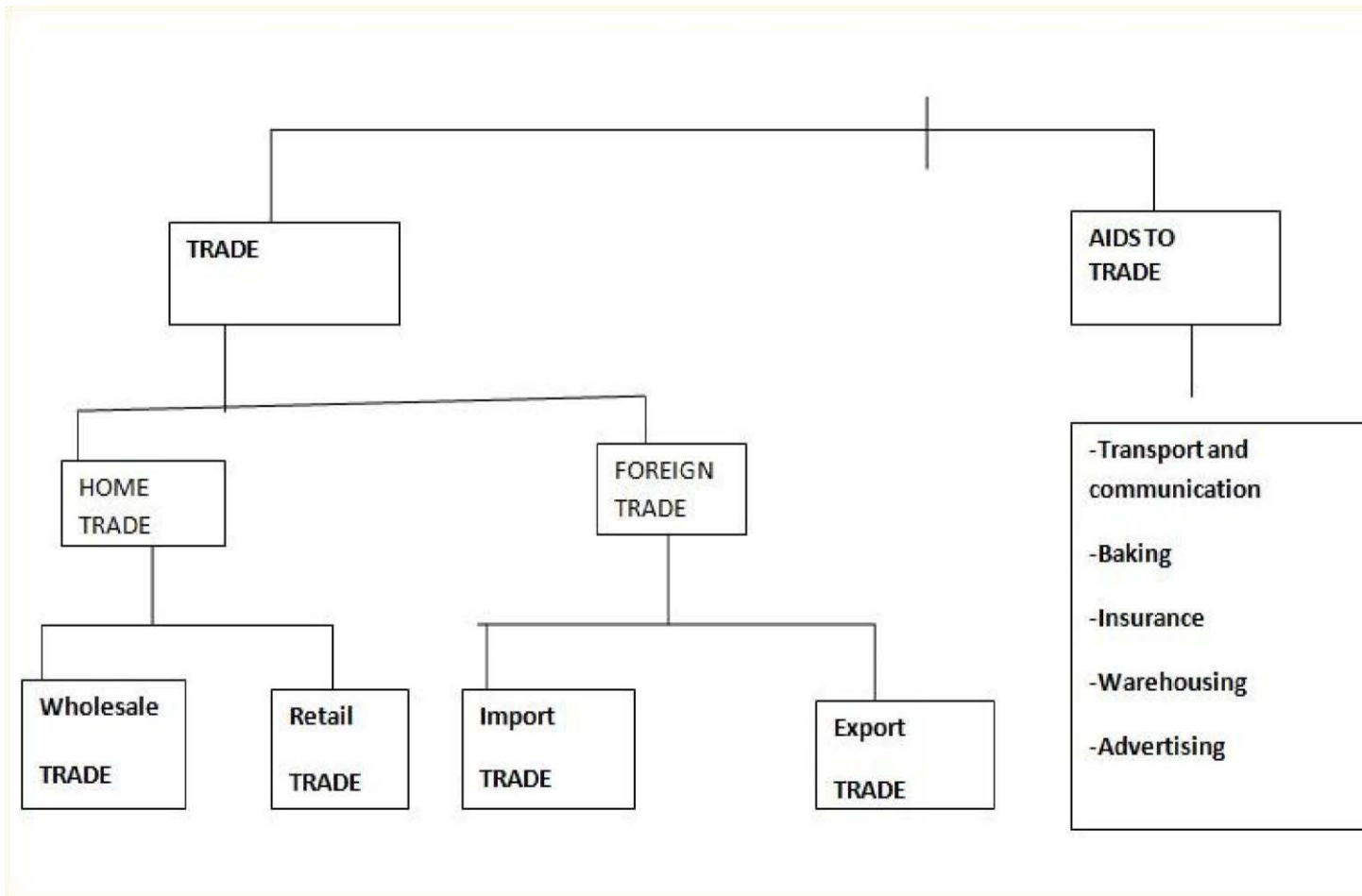
3. DIRECT SERVICE

- This involves activities which render services directly to consumers
- A person who wants to give a service must have direct contact with the person receiving the service.

Examples of direct services are; - Teaching, medical care (doctor), lawyers, policeman, hair dressers.

A CHART SHOWING CLASSIFICATION OF OCCUPATIONS





NOTE; Production process ends when goods and services reach to the final (ultimate) consumers

GOODS

- Are things which we can see and touch.
- Are things which satisfy human wants. E.g. clothes, cars, radio, T.V.

Classification of Goods;-

Goods are classified under the following categories;-

1. Consumer goods and producer goods

- .Consumer goods

-These are goods produced for final consumption.

Examples; foodstuffs, radio, T.v, furniture.

- **.Producer goods/capital goods**

-These are goods which are produced to assist production of other goods.

Examples; machinery, buildings, roads and railways.

2. Perishable goods and Durable goods

- **.Perishable goods**

-These are goods which can easily be destroyed or decayed.

Examples; foodstuffs, (e.g. milk, meat, flour, fruits, vegetables, etc.)

- **.Durable goods**

-These are the goods which can stay for a very long period of time without being destroyed.

Examples; buildings, machinery, furniture etc.

3. Private goods and Public goods

- **.Private goods**

-These are goods owned by individuals or family

- **.Public goods**

-These are goods owned enjoyed collectively Example;
defense, roads.

4. Intermediate goods and Final goods.

- **.Intermediate goods**

- These are goods in progress.

- **. Final goods**

- These are goods ready for consumption.

5. Free goods and Economic goods

- **.Free goods**

- These are goods which are provided freely by nature.

Examples; air, sunshine, rainfall, ocean water, forest. Etc

Features of free goods

Free goods have the following features;

1. They are not made by human effort
2. They are not scarce(i.e.) they are abundant
3. They possess utility (i.e.) ability to satisfy wants
4. They lack exchange value (i.e.) they cannot be bought or sold
5. They are not transferable in terms of ownership

- **Economic goods**

- These are the goods produced by human efforts.

Features of economic goods

1. They are made by human efforts
2. They are scarce
3. They possess utility
4. They have exchange value(i.e. they can be bought and sold)
5. They can be transferable in terms of ownership from one person to another person.

NOTE;

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

IMPORTANCE OF PRODUCTION

1. Satisfaction of human wants. Goods and services are used to satisfy human wants.
2. Increases the size of wealth of both personal and national income.
3. Increases the level of welfare of the people goods and services which are produced are aimed to improve welfare of the people.
4. Creation of employment. Production creates employment to various factors of production.

FACTORS OF PRODUCTION OR AGENTS OF PRODUCTION

-These are the economic resources which assist the process of production

-Factors of production are also known as;

- . Inputs
- . Tools of production
- .Agents of production

CATEGORIES OF FACTORS OF PRODUCTION

There are four major categories of factors of production

Factor of production	Reward of factor of production/ payment
1.Land	rent
2.Labour	Wages or salaries
3.Capital	interest
4. Entrepreneurship	Profit

1. LAND

-Land includes all kind of natural resources i.e. things which are not made by man like soil, farm land, forests, ocean, rivers etc.

Features of land

1. It is a gift of nature; It has been provided freely by God. It is non-man made.
2. Land is limited in quantity or fixed in supply
3. Location of land is fixed
4. Each part of land has a unique natural characteristics
5. Land provides site or place where production can take place.

For example place for construction of buildings, school, industries etc.

6. Land lacks geographical mobility. It means that it can't be moved or transported from one place to another.

IMPORTANCE OF LAND

1. It provides site/place for production to take place
2. It's a source of raw materials
3. It's a source of power example; Hydro electric power

2. LABOUR

TYPES OF LABOUR

1. Skilled Labour
2. Semi Skilled Labour
3. Unskilled Labour.

Skilled labour

-Are labours who are usually planners they use much brain (mental) in Planning rather than using Physical Effort example Doctors.

Semi skilled labour

Are those labours who use mental and physical effort to a lesser degree compared to skilled and unskilled labours example. Carpenters

Unskilled labour

Those are labours who use much physical effort than mental effort example Cargo Carrier

-Labor means any mental/physical effort of human beings in the process of production for any beneficial activity (productive activity)

NOTE; Any human effort which is not made for payment can't be regarded as labour.

Features of labour

1. Labour is the most mobile factor in both geographical and occupational senses
2. Any labour must be aimed at production
3. Without labours other factors cannot produce.
4. Labour differ in efficiency
5. Labour is supplied only by living things especially human beings
6. Labour isn't transferable between people i.e the ability to do work cannot be transferable from one person to another
7. Labour cannot be stored or reserved for later uses

3. CAPITAL

-Capital is any wealth (assets) used to produce other wealth (assets)

-Capital includes all types of producer goods e.g. machinery tools, buildings, raw materials etc.

Features of capital

1. Capital increases efficiency of the other factors because it simplifies work

2. Capital is made up by human beings
3. Capital can depreciate or it can become obsolete
4. Most of capital cannot work alone without combination with other factors like labour
5. It has an element of time

-Capital renders its services over a certain period of time

6. Capital results from the accumulation of assets over years

Types of capital

a.) Public and private capital

1. Public capital

-This is the type of capital owned by the whole society like public schools etc

.Private capital

-This is the type of capital owned by individual like car, clothes.

b.) i.) Fixed capital

-This is the type of capital which is durable in nature and is used in production for a long period of time.

For example; Furniture, buildings, some types of machines etc.

ii.) Circulating capital

-This is the type of capital used in the running of day to day activities

Or

-Is the type of capital used in running a business

-for example raw materials, fuel, money.

4. ENTREPRENEUR

-An entrepreneur is the owner of the business

-It's a factor of production which organizes other factors of production in the production process and establishment of a business

Characteristics of Entrepreneur

1. An entrepreneur does not work alone he must employ other factors
2. The supply of entrepreneur is scarce and cannot be developed easily
3. The reward of entrepreneur depends on efficiency of other factors

Functions of an Entrepreneur

1. To start the business
2. To employ and organize other factors of production in a production process
3. He is responsible for economic decisions

-Economic decisions such as what to produce, how to produce, for whom to produce, and where to produce

4. To forecast the demand for his products

-This is done by doing market research of a product

5. Entrepreneur bears the risk of business

-He/she is responsible for all risks which cannot be insured

COSTS OF PRODUCTION

-This refers to the expenses incurred in running a business or producing a commodity

Or

-Refer to money used to buy other factors of production.

TYPES OF COSTS

Costs can be categorized into the following types;

1. INDIRECT COST/ IMPLICIT COST/ OPPORTUNITY COST

-These are the benefits/ gains sacrificed by a firm by not engaging in the production of other commodities

-It means a firm by employing its resources in the production of a particular commodity it sacrifices other benefits which it could obtain by employing its resources in the production of other commodities.

Example;

If a peasant produces maize in his piece of land by doing so, he sacrifices other benefits that he could obtain by producing other crops in his plot of land for other economic activities.

2. DIRECT COSTS/ EXPLICIT COSTS

These are money actually used in buying factors of production

TYPES OF DIRECT COSTS

There are two types;

1. Fixed costs
2. Variable costs

a.)Fixed costs/prime costs/overhead cost

-These are the types of costs which don't change with the change in the level of output

-They must be insured even if production has not taken place.

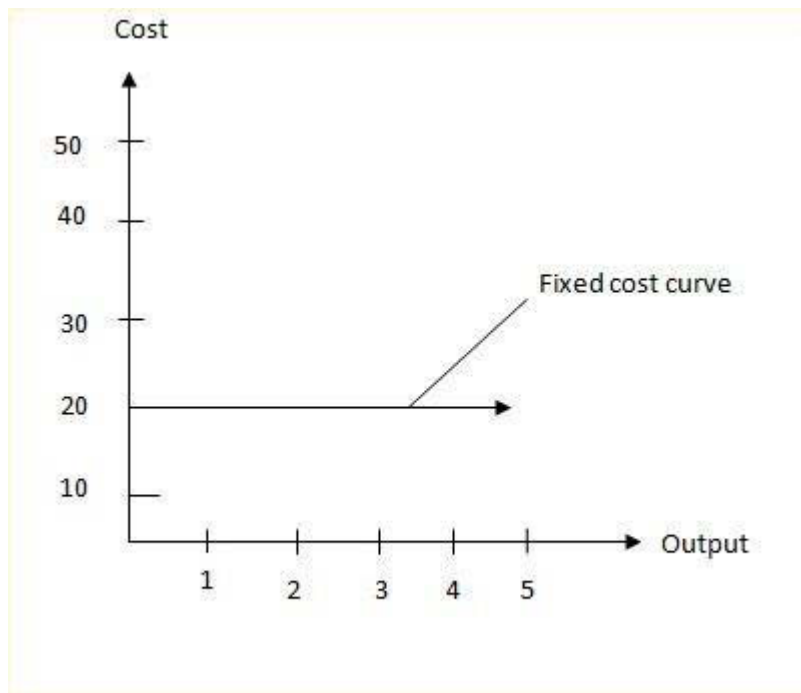
Example;

Rent of hiring land and interest for the use of capital must be paid even when there is no production of any output.

Example of total fixed cost schedule

Output(kg)	Total fixed cost(Tshs.)
0	20
1	20
2	20
3	20
4	20

The schedule can be presented in a form of a curve as shown below;-



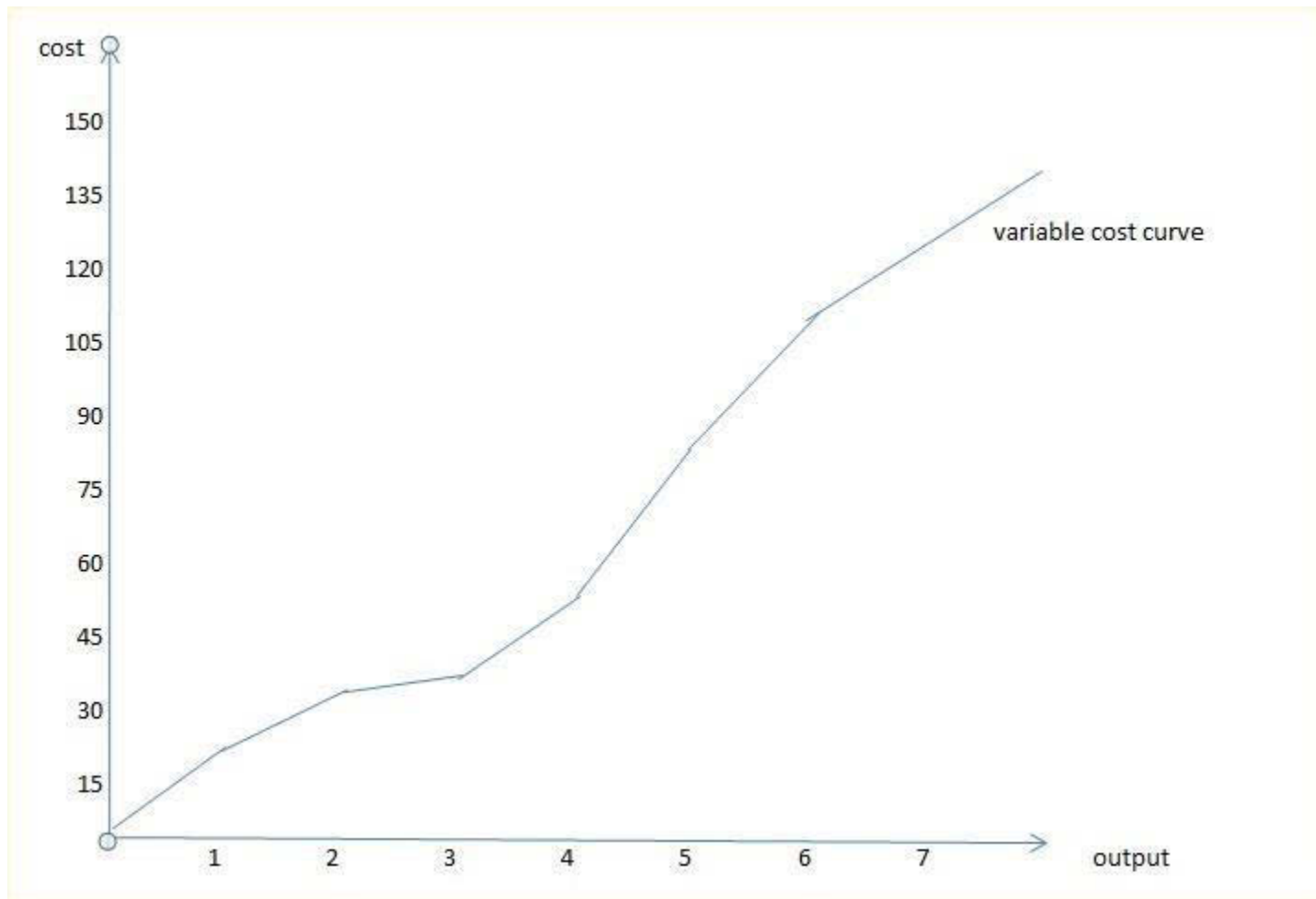
b.) Variable cost

-Refers to the type of cost which changes with the change in the level of output

-It means when production increases, a firm occurs more costs such as of buying raw materials, transport charges, wages to skilled labours, electricity etc

Examples of variable cost schedule

Output (kg)	Total variable cost(Tshs)
0	0
1	18
2	30
3	40
4	52
5	85
6	106
7	140



The schedule above can be presented in a form of a curve as shown below.

Total cost

-It is a sum of all costs of production both implicit cost and explicit cost.

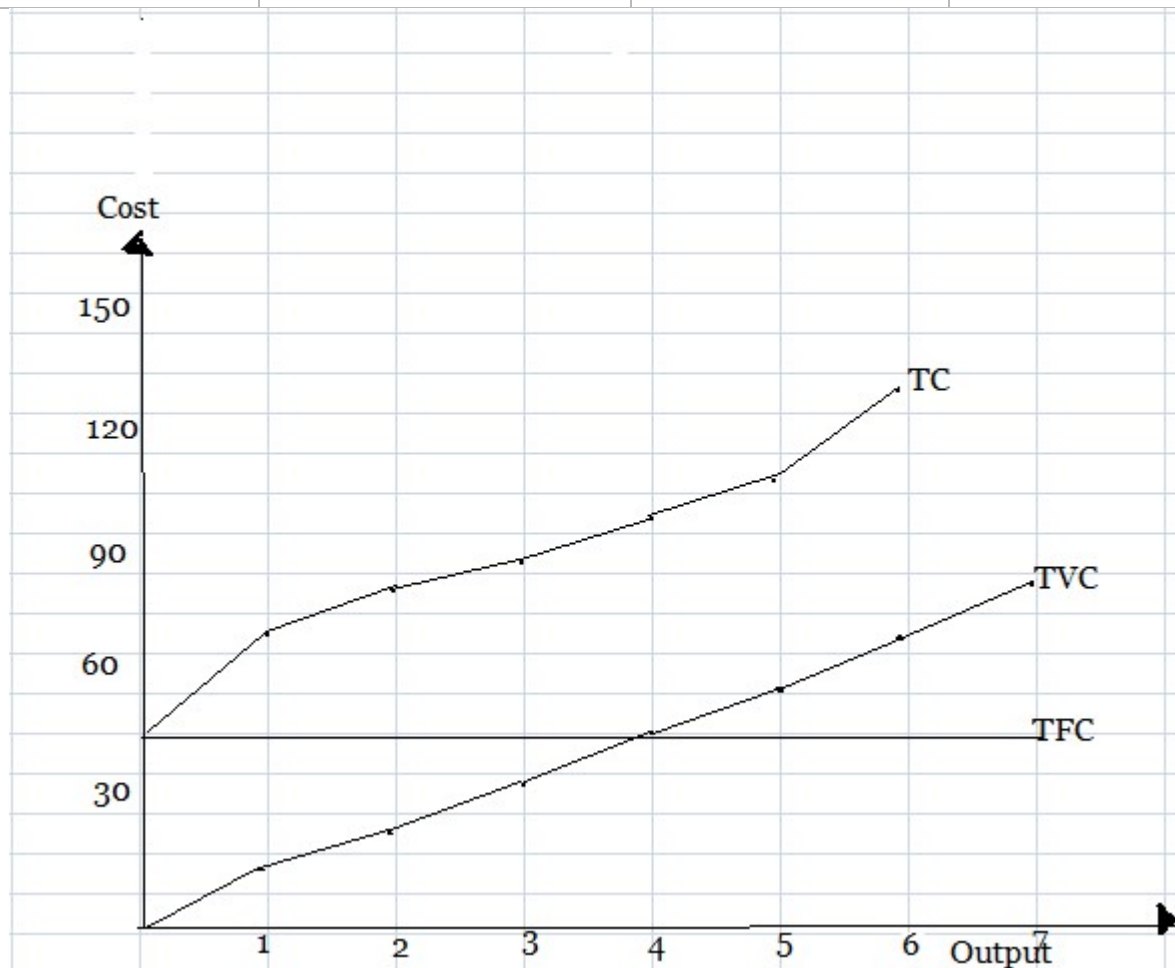
$$TC = I + E$$

$$TC = I + (TFC + TVC)$$

Total fixed cost, total variable cost and total cost

Output(kg)	TFC(Tshs)	TVC(Tshs)	TC(Tshs)
0	50	0	50

1	50	15	65
2	50	25	75
3	50	34	84
4	50	42	92
5	50	52	102
6	50	64	114
7	50	78	128



Total cost, Total variable cost and Total fixed cost curve

AVERAGE FIXED COST, AVERAGE TOTAL COST, AVERAGE VARIABLE COST AND MARGINAL COST

AVERAGE FIXED COST (AFC)

-Is the fixed cost per unit of output

$$AFC = \frac{TFC}{Q}$$

Q

Where;

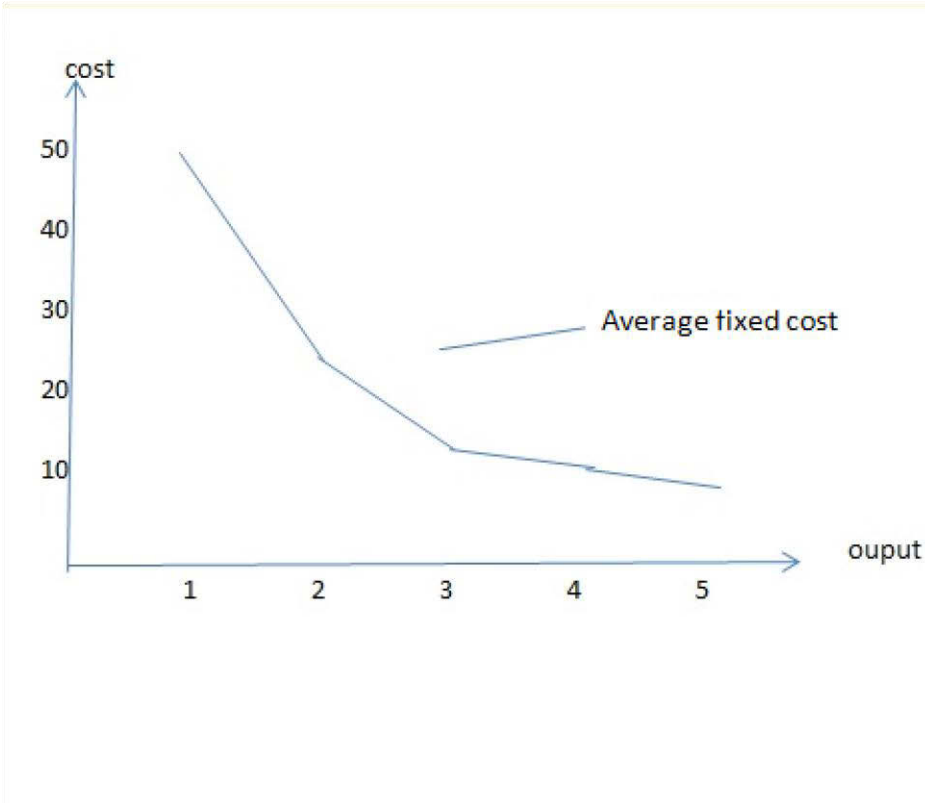
AFC = Average fixed cost

TFC = Total fixed cost

Q = Quantity

Example of Total fixed cost and Average fixed cost

Output(kg)	TFC(Tshs)	AFC(Tshs)
	50	0
1	50	50
2	50	25
3	50	16.6
4	50	12.5
5	50	10



-It is a curve which represents graphically average cost and the respective output levels.

AVERAGE VARIABLE COST (AVC)

-This is the ratio between total variable cost and the level of output produced.

Or

-Is the variable cost per unit of output.

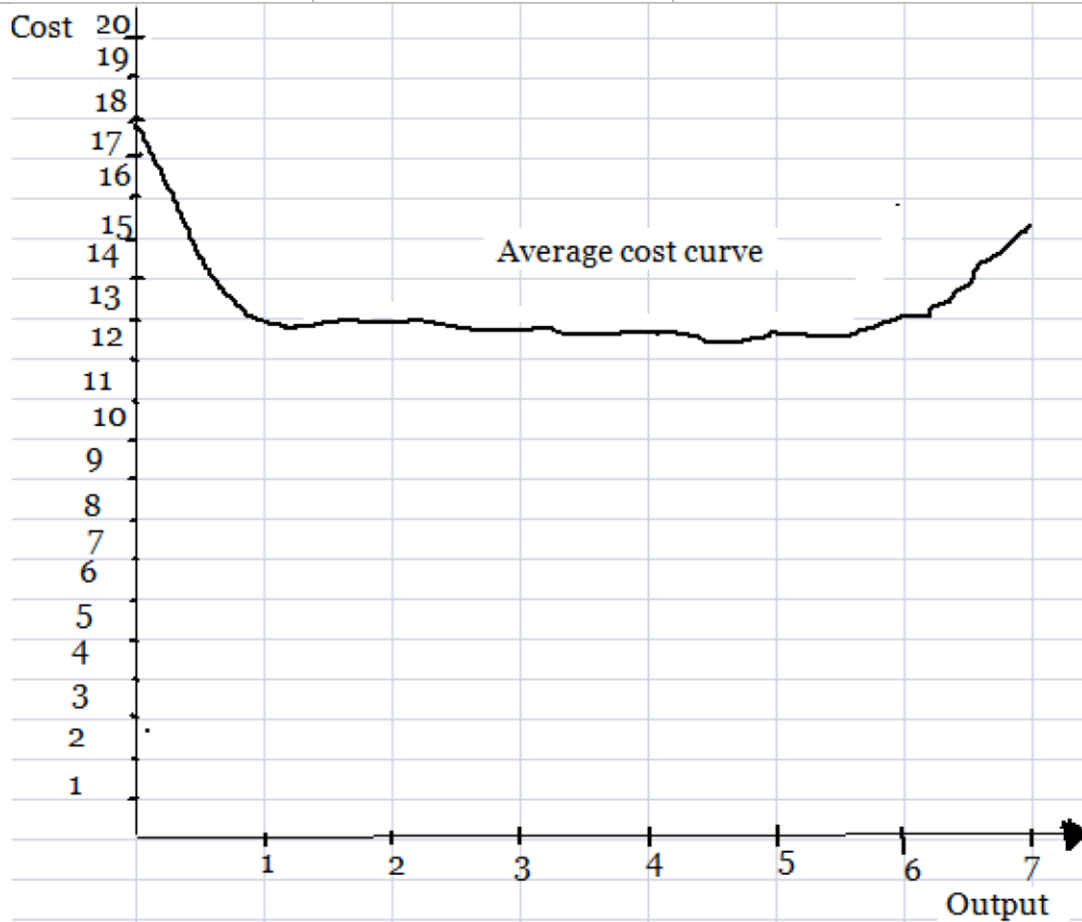
$$AVC = \frac{TVC}{Q}$$

Q

Example of average variable cost.

Output(kg)	TVC(Tshs)	Average cost(Tshs)
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0	0	0
1	18	18
2	30	15
3	40	13.3
4	52	13
5	65	13
6	82	13.7
7	106	15.15



AVERAGE TOTAL COST(ATC)

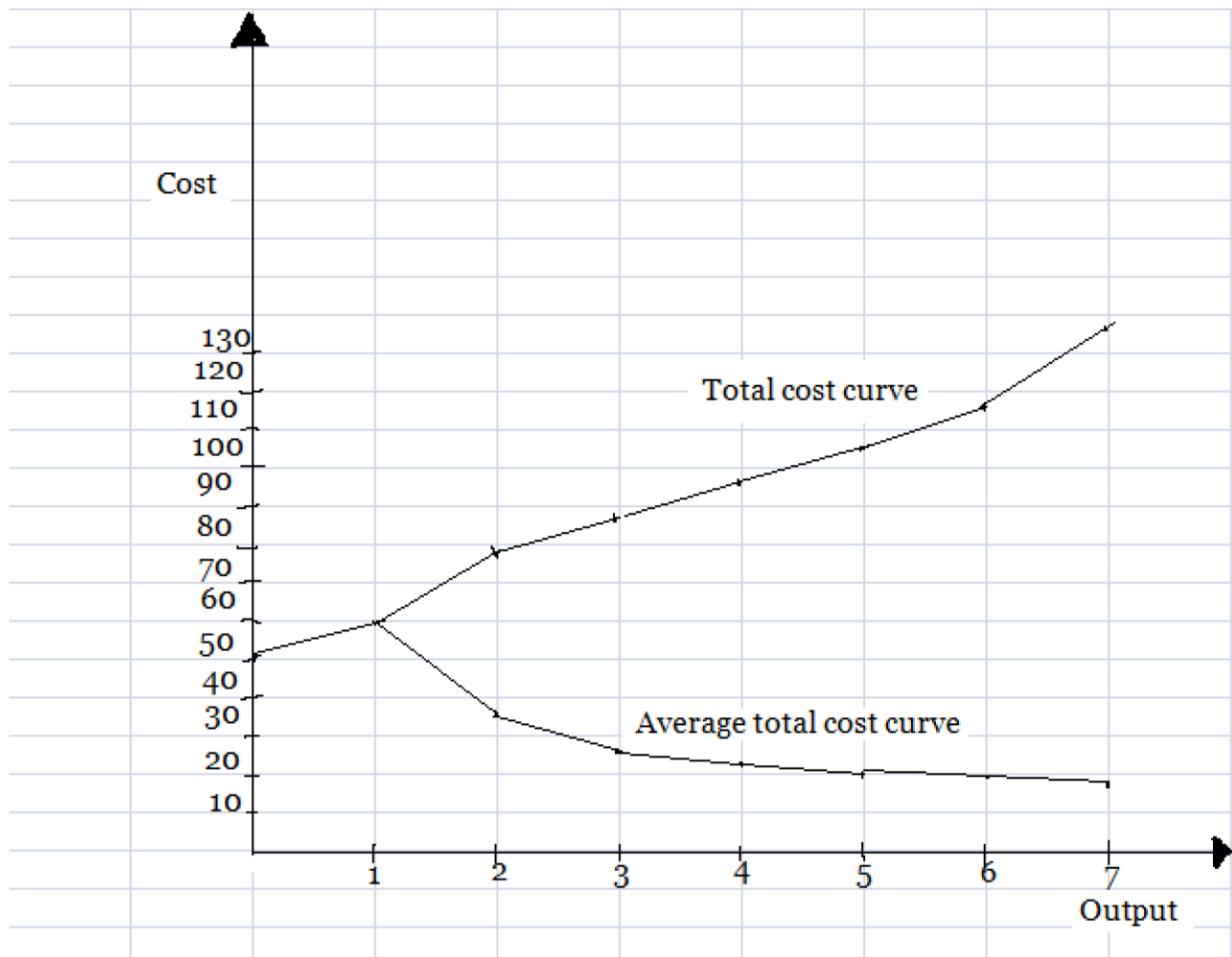
-Is the total cost per unit of output.

$$ATC = TC$$

Q

Total cost average total cost

Output(kg)	TC(Tshs)	ATC(Tshs)
0	50	0
1	65	65
2	75	37.5
3	84	28
4	92	23
5	102	2.40
6	114	19
7	128	18.28



MARGINAL COST (MC)

-Refers to additional cost due to one more unit of output produced.

MC = Change in Total cost

Change in output (Q)

$$= TC_2 - TC_1$$

$$Q_2 - Q_1$$

Total cost and Marginal cost

OUTPUT(Kg)	TC (Shs)	MC(Shs)
0	60	-
1	80	20
2	90	10
3	95	5
4	100	5
5	110	10
6	130	20
7	175	45
8	230	55

