

THE UNITED REPUBLIC OF TANZANIA
NATIONAL EXAMINATIONS COUNCIL OF TANZANIA
ADVANCED CERTIFICATE OF SECONDARY EDUCATION EXAMINATION

052/1

COMMERCE 1

(For Both School and Private Candidates)

Time: 3 Hours

ANSWERS

Year: 2016

Instructions

1. This paper consists of seven questions.
2. Answer five questions, question number one is compulsory

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1. (a) Describe five factors to be taken into consideration in calculating the amount of premium to be paid by the insured.

(b) Examine five ways in which insurance can benefit a business firm and the country at large.

(a) When calculating the amount of premium to be paid by the insured, insurance companies consider several factors to determine the level of risk and the appropriate cost of coverage. One key factor is the level of risk involved. If the insured asset or person is highly exposed to risks, such as a business in a fire-prone area, the premium will be higher. Lower-risk entities, such as properties with strong security systems, will have lower premiums.

Another factor is the sum insured. The higher the value of the item or person being insured, the higher the premium. For example, insuring a luxury car will cost more than insuring a low-cost vehicle due to the high cost of potential compensation.

The type of insurance policy also affects premium calculations. Comprehensive policies that cover multiple risks generally have higher premiums than basic policies that cover only specific risks. For instance, a life insurance policy with disability and critical illness benefits will have a higher premium than a basic life policy.

The claims history of the insured is also considered. If the insured has a history of making frequent claims, the insurer may charge a higher premium. This is because past claims indicate a higher likelihood of future claims.

Lastly, the duration of the insurance policy affects the premium amount. Short-term policies may have lower total costs but higher monthly or annual premiums, while long-term policies may offer discounted premiums due to extended coverage.

(b) Insurance plays a crucial role in benefiting both business firms and the country. One major benefit is business risk management. Insurance protects businesses from financial losses due to risks such as fire, theft, natural disasters, and accidents. This ensures business continuity even in cases of unexpected events.

Another benefit is investment security. Investors and financial institutions are more likely to invest in businesses that are insured, as it reduces financial risks. Insurance gives businesses credibility and attracts funding.

Employment creation is also a significant advantage. The insurance sector creates job opportunities for underwriters, claims assessors, brokers, and agents, contributing to national employment and income generation.

Additionally, insurance enhances economic stability by preventing major financial losses that could disrupt business operations and the economy. If businesses were to collapse due to uninsured risks, there would be increased unemployment and reduced economic growth.

Lastly, insurance contributes to national development through tax revenues collected from insurance companies. These taxes help governments fund infrastructure, healthcare, and education, improving the overall quality of life in the country.

2. (a) Briefly explain the following commercial terms as used in stock exchange.

(i) Unquoted companies

(ii) Quoted companies

(b) Examine four reasons why would a company like to be quoted?

(c) Outline five advantages of investing in shares and securities.

(a) In the stock exchange, unquoted companies refer to businesses that are not listed on the stock exchange market. These companies do not sell shares to the public and may be privately owned by individuals, families, or small groups of investors. They are not subject to stock market regulations and do not have public trading of their shares.

Quoted companies, on the other hand, are publicly listed businesses whose shares are traded on the stock exchange. These companies have gone through the process of initial public offering (IPO) and comply with stock market regulations. They allow investors to buy and sell shares, making them more transparent and accountable.

(b) Companies choose to be quoted for several reasons. One major reason is access to capital. Being listed on the stock exchange allows a company to raise funds by selling shares to the public. This capital can be used for business expansion, investment, or debt repayment.

Another reason is increased credibility and brand reputation. Quoted companies gain public trust because they are regulated and required to disclose financial information, which boosts investor confidence.

Liquidity of shares is also a key advantage. A publicly listed company provides its shareholders with the ability to buy or sell their shares at any time, making investment in the company more attractive.

Lastly, a company may choose to be quoted to facilitate mergers and acquisitions. Public companies have a transparent valuation, making it easier to attract potential buyers or merge with other firms.

(c) Investing in shares and securities offers several benefits. One key advantage is potential for high returns. Shares in successful companies tend to appreciate over time, allowing investors to make profits through capital gains.

Another advantage is dividend income. Many publicly traded companies distribute a portion of their profits as dividends to shareholders, providing a regular source of passive income.

Portfolio diversification is also a benefit. Investing in different shares and securities reduces financial risk because losses in one stock can be balanced by gains in another.

Additionally, shares are easily tradable, meaning investors can buy or sell them at any time based on market conditions. This liquidity provides flexibility compared to other investments like real estate.

Finally, investing in shares and securities supports economic growth. When investors buy shares, they provide capital for businesses, which in turn leads to job creation, innovation, and national economic development.

3. (a) Discuss five factors a retailer has to consider when setting up a retail business.
(b) Elaborate three merits and two demerits of mail order shops.

(a) When setting up a retail business, several factors must be considered to ensure success. One crucial factor is location. A retailer must choose a site that is easily accessible to customers and suppliers. A good location increases customer traffic and enhances sales.

Another important factor is target market identification. Retailers must understand their customers' preferences, income levels, and purchasing behavior to stock the right products and set appropriate prices.

Capital availability is also a key factor. Setting up a retail business requires funds for rent, stock purchases, marketing, and staff salaries. A retailer must have sufficient capital to cover startup and operational costs.

Competition analysis is crucial. Retailers must assess the presence of other businesses in the same industry and develop strategies to differentiate their products or services.

Lastly, supplier relationships are important. A successful retail business depends on a steady supply of goods. Retailers should establish strong relationships with reliable suppliers to ensure consistent product availability.

(b) Mail order shops offer several advantages. One major benefit is convenience for customers. People can order products from home and have them delivered, saving time and effort.

Another advantage is lower operational costs. Mail order businesses do not require physical stores, reducing expenses on rent, electricity, and staffing.

Wider market reach is also a benefit. Since customers can order from different locations, businesses are not limited by geography and can serve customers nationwide.

However, mail order shops have some disadvantages. One major drawback is delivery delays. Since products must be shipped, customers may experience long wait times, which can be frustrating.

Another disadvantage is limited product inspection. Unlike physical stores, where customers can see and test products before purchase, mail order customers rely on descriptions and images, increasing the risk of dissatisfaction.

4. (a) "Commerce is evolutionary subject." Comment on this statement by applying the view of historical development of commerce in Tanzania.

(b) Explain four shortcomings of barter trade.

(a) Commerce is an evolutionary subject because it has changed over time due to technological advancements, globalization, and changes in trade practices. In Tanzania, commerce evolved from barter trade, where people exchanged goods without money, to the use of money-based trade facilitated by the introduction of currency.

The development of markets and trade centers allowed people to buy and sell goods more efficiently. The growth of transportation networks improved trade by enabling goods to be moved faster and over longer distances.

Today, Tanzania has embraced e-commerce, where people buy and sell goods online. This evolution shows how commerce has continuously adapted to new economic and technological conditions.

(b) Barter trade had several shortcomings. One major problem was the lack of double coincidence of wants. Both parties had to want what the other offered, making transactions difficult.

Another issue was difficulty in determining value. Without a standard measure of value, it was hard to agree on fair exchanges.

Storage problems also affected barter trade. Some goods, such as food, could not be stored for long periods, leading to losses.

Lastly, barter trade limited trade expansion. Without a standardized currency, long-distance trade was challenging, restricting economic growth.

5. (a) How does the Bank of Tanzania (BOT) contribute to the economic development in Tanzania? Give five points.

(b) Identify five monetary management functions of the Bank of Tanzania.

(a) The Bank of Tanzania (BOT) plays a crucial role in promoting economic development by ensuring financial stability and facilitating growth. One major contribution is controlling inflation. By regulating the money supply through monetary policies, BOT prevents excessive inflation, ensuring stable prices and a favorable business environment for investment and economic growth.

Another key role is stabilizing the financial sector. BOT supervises commercial banks, microfinance institutions, and other financial organizations to ensure they operate efficiently and comply with financial regulations. This helps prevent bank failures and financial crises that could disrupt economic stability.

BOT also supports investment and industrialization by regulating interest rates. When BOT lowers interest rates, borrowing becomes cheaper, encouraging businesses and industries to invest in new projects, expand operations, and create jobs, thus boosting the economy.

Managing foreign exchange reserves is another important contribution. BOT oversees Tanzania's foreign currency reserves, ensuring the country has enough funds to pay for imports, stabilize the exchange rate, and promote international trade. A stable exchange rate attracts foreign investors and boosts exports.

Finally, BOT facilitates economic growth through financial inclusion. By promoting banking services in rural areas and supporting mobile banking, BOT enables more Tanzanians to access financial services, save money, and invest in businesses, leading to increased economic participation and development.

(b) The Bank of Tanzania also performs several monetary management functions to regulate the economy. One of the primary functions is controlling the money supply. BOT ensures that the amount of money circulating in the economy aligns with national economic goals, preventing inflation or deflation.

Another function is setting interest rates. BOT determines the benchmark interest rates, influencing the cost of borrowing and saving. Lower interest rates encourage investment, while higher rates help control inflation.

BOT is also responsible for issuing currency. It ensures that enough money is in circulation to facilitate trade and transactions while preventing counterfeiting and ensuring the stability of the national currency.

Another key function is regulating commercial banks. BOT sets financial policies and regulations that banks must follow, ensuring they remain stable, liquid, and able to serve the needs of individuals and businesses.

Lastly, BOT acts as a lender of last resort. When commercial banks face financial difficulties and liquidity shortages, BOT provides emergency funding to prevent bank collapses and maintain confidence in the financial system.

6. (a) State five reasons for holding stock by the business firm.

(b) What is the main difference between private warehouses and public warehouses?

(c) Explain four disadvantages of private warehouses.

(a) Businesses hold stock for various reasons to ensure smooth operations and meet customer demands. One key reason is ensuring continuous production and sales. Having stock on hand prevents production stoppages and ensures that customers always find available products.

Another reason is taking advantage of bulk purchasing discounts. Businesses that buy goods in large quantities often receive discounts from suppliers, reducing overall costs and increasing profit margins.

Catering to unexpected demand increases is another reason. If demand suddenly rises due to seasonal changes or market trends, a business with sufficient stock can meet customer needs without delays.

Holding stock also helps businesses protect against supply chain disruptions. Delays in transportation, supplier shortages, or political instability can impact the availability of raw materials. Having stock ensures that business operations are not affected by such challenges.

Finally, businesses hold stock to minimize price fluctuations. Some products, such as agricultural goods, experience price variations due to seasonal supply. By purchasing and storing goods when prices are low, businesses can sell them later at higher prices, increasing profits.

(b) The main difference between private and public warehouses is ownership and accessibility. Private warehouses are owned and operated by businesses for their exclusive use, meaning only the company that owns them can store goods there. In contrast, public warehouses are available for rent by multiple businesses, making them accessible to companies that do not own storage facilities.

(c) Private warehouses, while useful for large businesses, have some disadvantages. One major drawback is high construction and maintenance costs. Building and maintaining a private warehouse requires significant investment, which can be a financial burden, especially for small businesses.

Another disadvantage is limited flexibility. Since private warehouses serve only one company, they may remain underutilized during periods of low stock, leading to wasted space and inefficiency.

Geographical limitations also pose a challenge. A company with a private warehouse in one location may face difficulties distributing goods efficiently to distant markets, increasing transportation costs.

Lastly, technological upgrades require additional investment. Unlike public warehouses that frequently upgrade their storage systems, private warehouse owners must finance their own upgrades, which can be expensive and time-consuming.

7. (a) Analyse five aims of the productive organization.

(b) Identify five factors for labour efficiency.

(a) Productive organizations operate with clear goals to maximize output and economic contributions. One primary aim is profit maximization. Businesses seek to generate the highest possible profit by reducing production costs, increasing efficiency, and expanding market reach.

Another key aim is increasing production efficiency. Organizations focus on improving processes, utilizing better technology, and optimizing labour to maximize output while minimizing waste.

Satisfying consumer needs is also a major objective. Productive organizations aim to produce goods and services that meet customer demands in terms of quality, affordability, and availability.

Additionally, expanding market share is crucial. Businesses strive to grow their presence in local and international markets through branding, product innovation, and competitive pricing strategies.

Lastly, productive organizations aim for sustainable development. They implement environmentally friendly production methods and social responsibility initiatives to ensure long-term business success while minimizing negative impacts on society and the environment.

(b) Labour efficiency is influenced by several factors that determine how effectively workers perform their duties. One critical factor is skill and training. Employees with specialized training and experience are more productive and contribute to higher-quality output.

Another factor is working conditions. A safe, comfortable, and well-equipped workplace increases employee motivation and efficiency. Poor working environments, on the other hand, lead to low morale and reduced productivity.

Wages and incentives also play a crucial role. Fair salaries, bonuses, and other incentives encourage employees to work harder and stay committed to their jobs.

Additionally, availability of modern technology affects labour efficiency. Workers equipped with advanced tools and machines can complete tasks faster and with greater accuracy compared to those using outdated methods.

Lastly, supervision and management style impact productivity. Effective leadership, clear instructions, and proper monitoring help employees stay focused and work efficiently. Poor management can lead to confusion, delays, and reduced efficiency.

8. (a) Evaluate four roles of advertising in modern marketing.

(b) (i) Briefly describe the term advertising agent.

(ii) The manufacturing firms having their own advertising departments still use advertising agencies. Give five reasons why they find advertising agencies useful.

(a) Advertising plays a vital role in modern marketing by helping businesses attract customers and increase sales. One major role is creating brand awareness. Advertising ensures that consumers recognize and remember a brand, making it easier for businesses to gain customer loyalty and maintain a strong market presence.

Another important role is stimulating demand. By showcasing the benefits of a product or service, advertising persuades potential buyers to make purchases, increasing business revenue.

Providing information is another key function. Advertisements educate consumers about product features, pricing, promotions, and usage, helping them make informed purchasing decisions.

Lastly, advertising helps differentiate products in competitive markets. Businesses use advertisements to highlight unique selling points that set their products apart from competitors, influencing consumer choices.

(b) (i) An advertising agent is a professional or company that specializes in creating, managing, and executing marketing campaigns for businesses. They design advertisements, select media channels, and develop strategies to maximize the effectiveness of promotional efforts.

(ii) Even though some manufacturing firms have their own advertising departments, they still rely on advertising agencies for several reasons. One reason is expertise and creativity. Advertising agencies have specialists with experience in designing impactful campaigns that attract customer attention.

Another reason is access to advanced marketing tools. Agencies have research tools and data analytics that help businesses understand market trends and consumer behavior.

Cost efficiency is also a factor. Hiring an external agency can be more cost-effective than maintaining a full in-house marketing team.

Additionally, agencies have better media connections, allowing them to negotiate better rates and placements for advertisements.

Lastly, objectivity in marketing strategy ensures that agencies provide fresh perspectives and innovative ideas that internal teams might overlook.