

## COMMERCE CSEE 2013 (ANSWERS)

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### QUESTION 1

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
E	D	A	B	B	E	B	C	A	A

### QUESTION 2

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
H	M	O	F	J	A	D	B	G	E

### QUESTION 3

Occupation refers to the main activity you include in to get income for subsistence, eg. Farming, trading, etc. Different people adopt different occupations for example, some people cultivate the soil and produce agricultural commodities like coffee, rice, etc., and this occupation is called farming

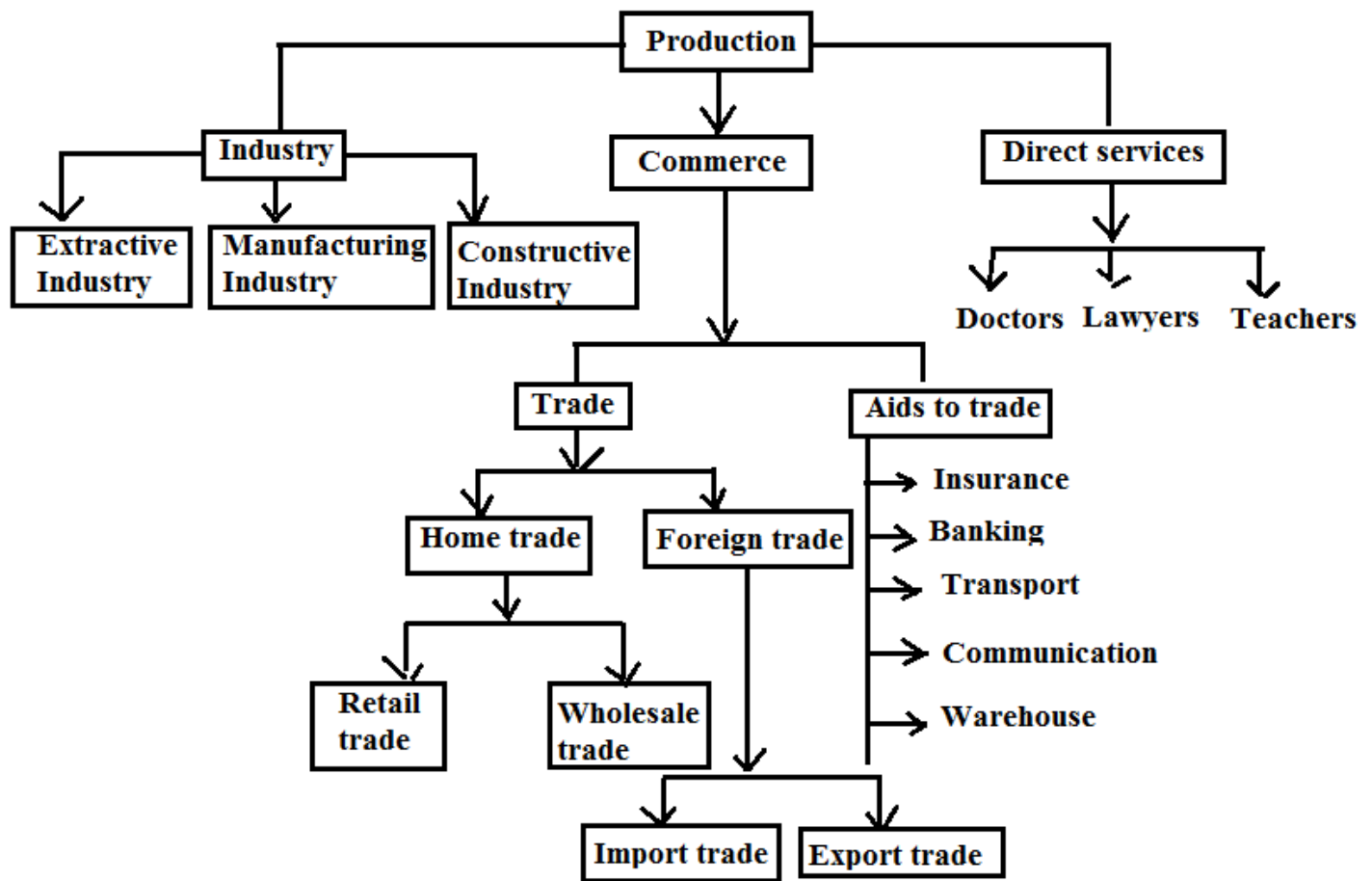
Some people convert raw materials into finished goods, these people are called manufacturers

Some people construct roads and buildings, these people are called construction contractors

Some people buy and sell goods from one place to another, these people are called traders. They may be retailers or wholesalers

Other people provide services to the public, these people are called professionals like doctors, accountants, teachers, etc.

Below is a diagram that shows classifications of occupation



#### QUESTION 4

- (a) **Post office** is a department or corporation which is responsible for postal and (in some countries) telecommunication services. Tanzania postal office is a public corporation which is owned by the government and provides various postal to the public.

Below are services offered by Tanzania post office:-

Collection, distribution and delivery of all types of letters, mails, and parcels post. Also it is responsible for the distribution of direct marketing mails by post which includes fliers, leaflets, brochures, catalogue, etc.

**Making payments.** The post office works as an agent to effect different types of payments like pensions, gratuities salaries, insurance benefits and dividends. It also makes cash collections tailored to specific requirements on behalf of the clients.

The post office allows its customers to use its extensive network in East Africa to transfer funds for various payments among East African countries.

**Transmission of message by fax.** Urgent message are transmitted and delivered within 12 hours in all major cities and business centres in Tanzania.

**Money transfer.** The postal office can transfer money from one place to another through expedited mail service (EMS) which provide electronic money transfer to all major towns within 24 hours.

In general the postal office is very important in the country because it promotes the growth of trading activities and provides employment opportunities to the public.

- (b) **Demand** is the ability and willingness of an individual to purchase given commodities at a given price in a specific period of time.

Below are factors that influence demand:-

**Income of consumer.** With a given income of a consumer, the higher the income the higher the demand of goods and services and vice versa.

**Consumer's taste and preference.** If the consumer's preference and tastes of certain commodities change then the demand of those commodities also changes. For instance, change in preference of Qwerty type of mobile phones over screen touch mobile phone has led to a decline in demand of qwerty type mobile phone

**Population.** Change in population may affect the demand of commodities. An increase in population results into increase in demand for certain goods while decrease in population results into decrease in the demand of particular goods.

**Expectation of future change in price.** If consumers expect a future rise in price, they will purchase more currently to save for future and thus increases in demand while vice versa leads to the decrease in demand.

**Change in price of substitutes.** If the price of one among the substitute commodities decreases against the other, then the demand of that commodity whose price has decreased, increases and vice versa.

**Change in weather conditions.** Weather condition affects demand of commodities. For example, during the hot season the demand of cold soft drinks like water, juice, soda, etc. increases while the demand of goods like umbrella, rain coat decreases.

## QUESTION 5

- (a) **Co-operative society** is an autonomous associations of persons who voluntarily cooperate for their mutual social, economic and cultural benefit. Co-operatives include non- profit making organizations and business that are owned and managed by the people who use their services. Examples are consumers co-operative society etc.

Five limitations of co-operatives:-

**Weakness in management.** Co-operative societies have an inherent weakness in management due to inefficient committees who lack education, experience or who have been promoted on the length of service rather than on the ability, efficiency and qualifications. Expert and efficient management is an important factor for running the business successfully. But a society cannot afford to hire the services of people with superior abilities due to its limited resources.

**Absence of co-operative spirit.** Sometime it happens that the members may not have unity among themselves which might affect the business of the co-operate society. They don't know the principle of business of co-operation. Therefore the positive results cannot be achieved by the operation of the society.

**Lack of prompt decisions.** As all matters are decided by the management committee and complied by another authority, it cannot act with promptness. If a chance comes to make a timely purchase or sale they have to wait to get others consent.

**Adoption of old techniques.** It is sometimes difficult for the society to introduce new techniques of productions and find various uses of the product due to its limited resources. The goods are produced in old designs which are not linked by the members and so its profit is affected.

**Lack of regular demand.** Co-operative society has to face regular fluctuation in demand due to lack of permanent members. The changes in demand adversely affects the business policy and thus society finally goes into liquidation.

All in all existence of co-operative societies helps members' at a large extent from being exploited in term of price; therefore it needs knowledgeable management in order to operate efficiently and effectively.

(b) **Railway transport** is a type of transport that involves the movement of people (passengers) and goods from one area to another by using trains. Examples of organizations that offer the services of railway transport are Tanzania Zambia Railway (TAZARA) and Tanzania Railway Limited (TRL).

Below are merits of railway transport:

**Suitable for heavy goods and materials transportation.** Railway transport is the best means to transport heavy and bulky goods and it is also relatively cheap.

**Cheap and regular.** Railway transport is a cheap and regular means of transporting goods and people. It provides regular services to business firms and people because it is operated in fixed time and certain routes.

**Reliability and safety.** Railway transport is dependable and reliable because it is not affected by change of weather, rain or any adverse weather conditions. This means it is dependable and safe to travel with or send goods to distance places.

**It provides transport service to a great number of people and more load.** Railway transport is the means of transport that carries more people than any other means of land transport in one trip/ journey.

**It provides its services in terms of classes.** Its services are offered according to different classes, this enables all people of different levels of income to use this type of transport. For example, the central railway line offers first class, second class and third class service. First class is for people with high incomes while third class is for low income earners.

In general railway infrastructure greatly assists in the growth of commerce as it facilitates transportation of heavy goods and people from one place to another.

## QUESTION 6

(a) **Insurance** is the system of pooling risks together by contributing small amounts of money into a common pool which is used to compensate those who suffer actual loss. While **gambling** is a betting game.

The following are differences between insurance and gambling

	INSURANCE	GAMBLING
(i)	A system of pooling risks together whereby individuals contribute to a common pool which in the long run compensates those who suffer the actual loss	The wagering of money or something of material value on an event with an uncertain outcome with the primary intent of winning additional money or material goods
(ii)	Aims at restoring an individual's previous financial position before the loss	The goal of gambling is to come out ahead (win)

(iii)	One must have an insurable interest in the property he/ she is insuring	In gambling insurable interest is not important
(iv)	You either suffer the loss or maintain the status, one can never earn profit in insurance	There is a possibility of both loss as well as profit
(v)	An event may or may not happen (the event is uncertain)	An event must happen to decide the winner or loser

(b) Circumstances leading to preference of cash payments over cheque payment are:-

**Small payments.** In case of a smaller transactions which require small payments, cash payment is usually preferable because of its convenience over cheque payment. For instance, a person cannot write a cheque to a seller for the payment of an exercise book costing 200/=

**Preference of the seller.** It may happen that the seller prefers to be paid on cash terms.

**The payer has no bank account.** When the payer has no bank account it will be difficult for him to execute payment through cheque and thus making cash payment more preferable.

**When there is a possibility of default by the payer.** This occurs when the seller is uncertain as to whether the payer has sufficient funds in his bank account and thus it makes the seller to prefer cash payments over cheque because of fear of the possibility of default by the customer (payer).

**When the payer has no sufficient funds in his bank account.** The seller will have no option than to prefer cash payments over cheque payment.

In general the method of payment depends on the requirements of the receiver of money (seller) regardless of the amount to be paid whether it is small or large.

## QUESTION 7

(a) **Central bank** is the bank which is responsible for the economic and financial stability of any country. It is the chief financial institution that has the role of regulating the flow of money and credit in the country. In Tanzania it is the central bank (BOT) that was established by an act of parliament on 23<sup>rd</sup> December 1965

The following are services provided by central bank to the government:-

**It is the bank to the government.** The central bank keeps government money. It is also the major advisor in formulation and implementation of monetary and fiscal policies of a country. Sometimes the central bank can advance loans to the government.

**Management of government debt.** It manages local and foreign government debts by keeping the figure and paying on behalf of the government.

**Provides financial advice.** It advises the government on all monetary issues such as money supply, inflation control, public debts, taxation, expenditure, etc.

**Represents the government in international financial institutions.** The central bank on behalf of the government participates in various discussions with international financial institutions and the World Bank on the stability of our currency, payment of debts and on financial assistance.

**Fiduciary/ currency issue.** It has the role of printing the notes and minting coins and issuing them in to the circulation.

**Financing government budget deficit.** If the government faces a budget deficit the central bank can finance it by providing a loan to the government.

A central bank is a very important institution in any country because it is the only financial institution responsible for its economic development and stability.

- (b) **A share is a unit of a capital of a company.** Company's shares are sold in the stock exchange market in order to raise up its capital. Shares may be sold at a high or low price in the market due to the following factors.

**Market sentiment,** this is the general market direction during seasons. In a bull market, the share price of most companies will rise up and in a bear market; the share price of most companies will fall

**Performance of industry.** Very often, the share price of the companies in the same industry will move in tandem with each other. This is because market conditions will generally affect the companies in the same industry the same way.

**Earning results and guidance.** The main objective of a company is to make profit. Therefore investors always assess company basing on its earnings per share and its future earning potential. This is also closely monitored by investors and it is an important factor that will affect the company's share price.

**Takeover or merger.** In general, a company that is being taken-over is anticipated to get a share price boost and the company taking over another company shall experience a fall in its share price. This is assuming that the company is being taken over at premium. In some cases the share price of the acquirer may get a boost if it is perceived that the acquisition shall contribute to its earning or revenue in the near future.

**Dividend.** The share price may increase by an amount due to the dividend per share value. However, the share price may drop on the ex-dividend date by the dividend per share amount this is because anyone buying a share on or after the ex-dividend date is not entitled to the corresponding dividend payment.

Therefore the above factors show that the price of a share is a very important indicator for investors to decide in which company they can invest their money. Some prefer to invest in companies that sell their shares at a low price and others prefer to invest in those companies which sell their shares at a high price.

## QUESTION 8

- (a) **Advertising** is the process of informing the public about the goods and services available in the market. This can be done through advertising media like TV, radio, newspapers, etc.

Below are disadvantages of advertising:-

**Adds cost of marketing.** Advertising is considered as an indirect cost which is added to distribution expenses as a result the selling price of the product increases. This may cause certain goods to be bought at higher price than they should.

**Encourages monopoly.** Advertising restricts competition among producers. Big firms may exercise their monopolistic control over the market with the help of advertisement techniques which is always against public interest.

**Disconnection of business.** Small firms cannot properly advertise their products due to limited resources. But on the other side the entire market is controlled by the great advertiser. It becomes

difficult for the small scale firms to continue with their business and thus most of them disappear in the market

**Consumers may be forced to buy commodities which they don't desire at that particular time** because advertising influences the mind of the public and creates inclination in the consumers' minds on the advertised products.

**Advertising may be misleading at times** because most of the advertisers don't show the demerits of the products as they are more concerned with explaining the advantages of the product neglecting the disadvantages (side effects).

Although advertising has the above disadvantages it has a big contribution to the business firm because it helps the business to raise up its sales volume thus winning the market against competitors.

- (b) **Trade** is an economic activity that involves buying and selling of goods and services. Trade is subdivided into two branches that is home (internals) trade and foreign trade.

**Foreign trade** is concerned with the buying goods from other countries or selling goods and services abroad. Foreign trade has got various challenges that face the participants.

Below are problems faced by exporters that do not affect people in domestic trading:-

**Competition in world market.** Most exporters from less developed countries face competition in international trade due to low quality of goods exported as compared to foreign goods. As a result they fail to get enough customers and hence they get less revenue from their sales.

**Financial risk.** Collection of payments using the methods that are available (i.e. open account, documentary bill, letter of credit, etc) is not only more time consuming but it is also more complicated and sometimes exporters may not get their money from the importers.

**Export license and documentation.** In many cases, export trade involves the use and need of many documents like letter of credit letter of hypothecation, etc. in most cases exporters require export license to be able to export their commodities which is not necessary in domestic trade.

**Collection of marketing information.** The process of finding information on foreign markets is more difficult and time consuming than in domestic markets. In less developed countries like Tanzania for example, reliable information on business practices, market characteristics and cultural barriers may not be available.

**Language barrier.** Difference in language is an obstacle to many exporters especially when they are not familiar to the language of the country they wish to export.

It is true that exporters are experiencing many challenges in export trade but in some cases they get free advice and assistance. For example in Tanzania there is the Board of External Trade (BET) which assists exporters in terms of information concerning international markets, trade enquiries, etc.

## QUESTION 9

- (a) **Wholesaler** is a person who buys goods in large quantities from manufacturers and sell them in relatively small quantities to retailers.

It is not right to say that a wholesaler has nothing to do to the manufacturer. This is because he has several functions/ services that offer the manufacturer as follows:-



**Warehousing.** The wholesaler relieves the manufacturer from the storage costs by using large quantities by the stock and storing them in his/ her warehouse until their demand reaches, i.e. when the customers (retailers) need them.

**Preparation of goods before selling.** The wholesaler performs activities like grading, packing and packaging and thus helps the manufacturer in preparing the goods before they are sold. He also relieves the manufacturer from the costs that would have been incurred in preparing the goods before sale.

**Source of information.** The wholesaler does market research on behalf of the manufacturer and this help the manufacturer to understand what kind of goods are demanded in the market through the market information provided by the wholesaler.

**Transportation.** It happens sometimes the wholesaler transports the goods from the manufacturer's premises to the market and thus relieves the manufacturers from additional transport costs that would have been incurred in transporting the goods to the market.

**Specialization.** Existence of the wholesaler makes the manufacturer to specialize in only one activity that is production of goods, because the wholesaler performs various marketing functions such as transporting, branding, advertising, marketing, market research and others which in turn help the manufacturer to a large extent.

**Risk of fall in demand.** Wholesaler relieves the manufacturer from the risk of fall in demand and price of his goods because he buys them in large quantities and stores them in his premises. In case the price falls down, the risk goes direct to the wholesaler instead of the manufacturer.

Wholesaler's existence is very important because he plays great roles in the chain of distribution which helps the manufacturers and retailers as well.

- (b) **Government** is the group of people who are responsible for controlling a country or state. The government manages relations between the people and their institutions or organizations.

**The following are ways in which the government spends its money:-**

**Debts and interest payments.** The government spends money on paying debts plus interest on debts from various loans issued to it.

**Providing important public services like education and health** through public schools and hospitals, electricity, water, etc. through public corporations e.g. TANESCO.

**Payment of civil servants.** The government spends money to pay salaries to its workers (civil servants) and officials in public sectors like public hospitals, local government authorities, parastatal, etc.

**Reducing income inequality in the society.** The government spends money on welfare payments like unemployment benefits to the public to help in reducing income inequality in the society. This is mostly done in developed countries.

## **QUESTION 10**

- (a) **A bank** is a financial institution that accepts deposits and safeguards such deposits and performs other banking activities such as advancing loans to customer, etc.

**A loan** is the amount of money that is given to a person by a financial institution like a bank and the borrower has to pay back such amount with interest on an agreed future time.

**Below are factors to be considered before granting a loan to the applicant (customer)**



**Capacity of the customer to repay the loan.** The bank must consider when and how the customer intends to repay before granting him a loan. Moreover the capacity of the customer may involve reviewing his/ her credit history before granting him a loan

**Collateral security.** The customer should offer security to the loan he/ she intends to be given in case the customer falls to repay the loan

**Capital of the customer.** Before applying for a bank loan the borrower must have a significant investment in the business. The bank considers this before granting a loan to the customer. It will look carefully at the amount and quality of capital of the customer. If the customer has a large capital, he/ she will be in a position to get the loan easily

**Economic situation in the country.** During recession it is obviously more difficult for a small business to repay loans and also more difficult for a bank to find the funds to loan. Thus the bank must first consider the economic situation of the country at that particular time before granting a loan to the customer.

**Purpose of the loan.** A bank considers the purpose of loan before granting it to the applicant. For example, during inflation banks provide loans only to those dealing with production of goods and services and leave behind those who apply loans for the purpose of constructing houses for settlement or buying motor cars for private uses.

Banks should therefore consider the factors mentioned above because they act as a guidance to decide whether to provide the loan to the customer or not.

- (b) **Tax** is a compulsory payment made by individuals and firms to the government. There are two types of taxes that is direct tax and indirect tax.

**Direct tax** is a type of tax which is imposed on people's income e.g. graduated tax, property tax, etc.

**Indirect tax** is a type of tax which is imposed on goods and services e.g. custom duties, value added tax, etc.

**The following are negative effects of taxation:-**

**Diversion in allocation of resources.** Investors may deviate the allocation of resources from heavily taxed but more productive sectors to less taxed but low productive sectors or to production of illegal products, example cocaine, which cannot be taxed.

**Discouraging saving.** Heavy direct tax reduces disposable income that is the income that remains after deduction of taxes. If a person remains with a little amount of money after charging direct tax, he/ she cannot save because they may spend the whole balance on necessary consumption for their families and remaining with zero balance.

**It may cause inflation.** Large income tax may initiate workers to demand for more wages and hence leading to demand pull inflation. Likewise large indirect tax is inflationary because when it is imposed it leads to an increase in the price of goods and services.

**Below are positive effects of taxation:-**

**Redistribution of income.** Tax redistributes incomes by taking part of the incomes of rich people and the government uses the collected money as tax to provide free social services to the poor people.

**Revenue generation.** Tax is an important source of government revenue that is the government depends heavily on tax for most of its revenue. The government taxes on

properties owned by the people, profit made by the companies, the sales made by the business firms as well as the incomes of civil servants.

**Control of balance of disequilibrium.** Heavy import duties can be a disincentive to imports because they tend to raise up the cost of imports and hence the importer will sell those imports at a higher price so as to get profit. By doing so the domestic users will prefer locally produced goods, the importers will be in a position to get loss. Therefore deficits in the balance of payment is controlled.

**Discouragement of consumption of harmful products.** Certain kind of indirect tax can be used to control production and consumption of harmful products such as cigarettes, spirits and alcoholic drinks.