

Disadvantages of Specialization

- Work becomes boring.
- Interdependency increases.
- Decline in craftsmanship.
- Machinery replaces labor.
- Standardized output, choice of customers decreases.
- Demotivated staff.

Forms of Specialization

Specialization at country level occurs when a certain country devotes itself mainly to produce certain products which it exports to other countries.

Specialization at region level occurs when a particular region in a country devotes its self in producing certain types of products, which is used by all the country.

Specialization at town level occurs when a particular city in a country devotes its self in producing certain types of products, which is used by all the country.

Specialization at firm level occurs when a firm is divided into departments and within departments individual workers have their own specialized duty.

Branches of Production

Primary Production

- First Stage of production.
- Primary production is obtaining raw materials or food from nature.
- Includes Extractive Industries for example mining, quarrying.
- Includes Genetic Industries for example farming, forestry and fishing.
- Products are in unusable state, so they are moved to secondary stage of production.

Secondary Production

- Second Stage of Production.
- Secondary production is making goods from raw materials.
- Includes Manufacturing, Processing and Constructing.
- Products are ready to use, but are at wrong place, so moved at tertiary stage.

Tertiary Production

- Third (last) Stage of Production.
- It assists industry to function, by providing commercial services and direct personal services.

Commercial Services

All services which are related to distribution of goods and services from producers to customers for example communication, finance, insurance, retailers and wholesalers.

Direct Personal Services

Provision of personal services directly to the consumer without anyone else involved for example teacher, actor and tailor. Are usually personal services to satisfying immaterial wants.

Note: Production is completed only when goods reach point of consumption.

Location of Production Units**Agricultural Unit**

1. **Climate:** A farmer must ensure that crop is planted to a area where climatic conditions allow the production of that crop for example temperature and rainfall.
2. **Nature of land:** A farmer must select land which is flat and fertile.
3. **Access to markets:** A farmer must have a farm near to the market or customers, because most of agricultural products are perishable (for example sugar cane). There should be efficient and cheap transportation system available.
4. **Labor:** Without labor it would be very difficult to carry out the production.
5. **Government policy:** Government may favour the production of a particular crop in particular area by providing cheap land and giving other incentives.

Manufacturing Unit

1. **Transport:** Factory must be located where cheap and efficient transport facilities are available.
2. **Power source:** Factories are set up where there is cheap and adequate supply of electrical power.
3. **Labor:** Both skilled and unskilled labor should be present.
4. **Nearness to market:** Factory should be near its customers to avoid high transportations cost.
5. **Government policies:** Government may provide certain very attractive incentives for factories for example in rural areas to provide jobs to the people.

How are manufacturing and tertiary activities inter-related?

- Manufacturing is concerned with producing goods from raw materials, tertiary activities are concerned with the distribution of finished goods from the factory to the final consumer.
- Unless there were tertiary activities finished goods would not be sold because there would not be any advertising, no finance to build factories, no storage facility, no **transport to** the retailer/wholesaler and no communication between buyer and seller.
- Manufacturing would not be able to take place as goods would be stockpiled and so it is dependent on tertiary activities to get the goods to the right person at the right time.
- As manufacturing becomes more specialized, the manufacturer will become more dependent on others to provide tertiary services.

Instances where wholesalers are still involved

1. Standardized items.
2. Seasonal production (farm products).
3. Unbranded items (farm products).
4. Large markets.
5. Producers do not have resources.
6. Imports and exports.

Recent Trends in Wholesaling**Cash-and-carry wholesalers**

- It is a wholesale supermarket, where retailers can buy goods in bulk at low prices.
- No credit nor delivery of goods are provided.
- Generally located in commercial areas.
- Advantages:
 1. Cheap goods due to self service.
 2. No restriction on purchase of a minimum quantity.

Voluntary chain

- Wholesalers and retailers enter into a agreement for purposes of mutual commercial benefits.
- Under this agreement all parties agree to work under a common name and symbol.
- Retailers agree to buy exclusively from a specific wholesaler.
- All are responsible for their own profit and loss.

Advantages to retailer:

- Confirmed source of supply.
- Cheap source of supply.
- Full technical support from wholesaler.

Advantages to wholesaler:

- Assured amount of turnover.
- Consolidated order.
- Administrative cost becomes low.

Capital of Public Limited Company

1. Shares

Are issued by public limited company to general public. Holder of share becomes owner of the business.

2. Debenture

Are issued by public limited company to general public. Holder of debenture becomes the lender to the business.

Ordinary Shares		Debenture
1.	Normally are non redeemable.	Redeemable over a time upto 20-25 years.
2.	Can attend the AGO and hence take part in management by electing BOD.	Holders can not attend the AGO.
3.	Holders get share of profit by getting dividends.	Holders get interest on their investments.
4.	Rate of dividend is not fixed and is decided each year at AGO.	Rate of interest is fixed and is written on debenture certificate.
5.	Dividend depends on profit earned.	Interest is not related to profit earned.
6.	In case of liquidation, holder get share after debenture holders are paid.	In case of liquidation, debenture holders are paid in full before ordinary share holders.
AGO= Annual General Meeting		
BOD= Board of Directors		

	Ordinary Shares	Preference Shares
1.	True owners of business, can take part in AGO.	Just investors, can not take part in AGO.
2.	Rate of dividend is higher.	Rate of dividend is lower.
3.	Rate depends on profit earned. Called Risk Capital.	Fixed rate of dividend, irrespective of the profit earned.
4.	Entitled to dividends after preference share holders have been paid.	Paid first of all.
5.	Rank last of distribution of assets in liquidation.	In case of liquidation, ranks after debenture holders.

Calculations of Dividend

Face value of shares X No. of shares issued X Rate of dividend

Difference between Private and Public Limited Companies

	Private	Public
1.	Owners: 2-50	Owners: 7- Unlimited
2.	Capital: Medium to Large	Capital: Large
3.	Shares issued to selected people.	Shares issued to general people.
4.	All share holders can become directors.	All share holders cannot become directors.
5.	Financial data can be kept secret.	Financial data has to be publicized (prospectus).
6.	Share holders can run the business.	Management and owners are different.

- **Services provided by ATMs:**
 1. Mini Bank Statement.
 2. Utility Bills payment.
 3. Balance enquiry.
 4. Balance Transfer (BTF).
 5. Deposit Money.
- All debit cards are AT M cards but all ATM cards are not debit cards.

4.7. Telebanking

- A special facility which is offered by the banks to their account holders on their request.
- It is a service which allows its customers to perform transactions over the telephone. This normally includes bill payments for bills from major billers (e. g. for electricity) PIN is used to access the bank account.
- **Facilities:**
 - o Pay bills.
 - o Checking Bank balance.
 - o Balance Transfer Facility (BTF).
 - o Requesting cheque books.

4.8. Internet Banking

- It is a term used for performing transactions, payments etc. over the Internet through a bank.
- Customer has to open the bank's website.
- PIN code is used for authentication.
- Facilities are same as Telebanking.

4.9. Lockers

- A facility offered by the banks to their customers on their request to deposit their valuables in Bank Lockers.
- Each locker has two keys one given to customer and one rests with the bank.
- Valuables kept may be under a insurance cover provided by the bank upto certain limit.

4.10. Night Safe Deposits.

- A facility offered by the bank to account holders to deposit money after bank timings.

4.11. Paying-in Slip.

- Used to add money into one's own account.

Introduction

Transportation **is the movement of people and goods from one place to another.**

Importance of Transportation

1. Assists trading.
2. Creates utility of place .
3. Improves standard of living.
4. Provides necessities of live and minimizes shortages.
5. International trade is not possible without transportation.
6. Efficient transportation system is important for distribution of goods in right form.

Modes of Transportation

Road Transport

Advantages

1. Cheap for shorter distances.
2. Quick for shorter distances.
3. Door to Door delivery .
4. Minimum documents involved.
5. It is flexible. Smaller and larger quantities can be transported to most of regions.
6. Round the clock availability.

Disadvantages

1. Expensive for long distances and heavy load.
2. Slow for long distances.
3. Effected by climate.
4. Effected by weather conditions.
5. Effected by traffic congestions.
6. Creates pollution.
7. Creates traffic congestions.

Rail Transport

Advantages

1. Quick for long distances.
2. Good to carry bulky cargo.
3. Not effected by traffic.
4. Does not create pollution in cities.
5. Special transporters may be provided for different specialized items.
6. Especially suitable for low value and high volume cargo.

Shipping Conference

- It is a meeting held on annual basis attended by representatives of shipping companies in which important matters are discussed.
- One of the important matters discussed is the decision of minimum freight charges for a certain voyage. This freight is called “conference rate”.

Advantages

1. Price competition amongst the shipping line is limited.
2. Profit is certain.
3. Availability of ships in the long run.

Disadvantages

1. Rates are made artificially high, expensive rates.
2. Some shipping lines not attending the conference can operate below conference rate, which is disadvantage to other shipping lines.

Pipe Line

- Suitable only for gases and liquids.
- Operational costs are minimum.
- Heavy capital costs.
- Require favourable gradient.
- Security hazards.
- Leakage problems.

Hiring and Owning Transportation

Hiring Transportation

Advantages

1. Capital cost is saved.
2. Running and maintenance cost is saved.
3. Saving on problems relating to crew.
4. Save on taxes.

Owning Transportation

Advantages

1. Cheaper operational cost.
2. Creates good image.
3. Can be used for business advertisements.
4. Can make amendments to the transport according to requirements.
5. Round the clock availability.
6. Reduces dependency.

Factors to be considered before deciding for Hiring or Owning

1. Capital cost.
2. Frequency of use.
3. Nature and scope of business.
4. Business certainty.
5. Availability of rental transportation.
6. Freight charges of rental transportation.
7. Crew costs.

Factors affecting choice of mode of Transportation

1. Freight charges.
2. Availability.
3. Coverage.
4. Topography.
5. Distance.
6. Urgency.
7. Value of cargo.
8. Nature of cargo.

Recent Trends in Transportation

1. Chartered transportation.
2. Air Freight.
3. Express Routes.
 - Main routes (high ways) which are made for HTV (heavy transport vehicles).
 - There are minimum obstacles.
 - Minimum crossing.
 - Speedy transportation.

Port Authority: Responsibilities

1. To provide navigation facilities and to control air and sea traffic.
2. To maintain air traffic control tower/light house.
3. To maintain run ways/berths/docks.
4. Fuelling of planes/ships.
5. Provision of supplies to the planes/ships before departure.
6. Signing agreement with other port authorities on variety of issues.
7. Maintenance of planes/ships before departure.
8. Providing facilities to passengers and traders.
9. Security arrangement.
10. Permits to motor boats/light air planes.
11. Providing hanger facilities/wet or dry docks.

Risks in Foreign Trade

Economic risks

1. Risk of insolvency of the buyer,
2. Risk of protracted default - the failure of the buyer to pay the amount due within six months after the due date
3. Risk of non-acceptance
4. Surrendering economic sovereignty
5. Risk of Exchange rate

Political risks

1. Risk of cancellation or non-renewal of export or import licenses
2. War risks
3. Risk of expropriation or confiscation of the importer's company
4. Risk of the imposition of an import ban after the shipment of the goods
5. Transfer risk - imposition of exchange controls by the importer's country or foreign currency shortages
6. Surrendering political sovereignty
7. Influence of political parties in importer's company

Advantages of Foreign Trade

1. A greater variety of goods and services become available.
2. Local shortages can be complemented.
3. Government earns revenue (by import/export duties).
4. More foreign exchange reserves (in case of export).
5. A country can specialize in producing certain goods and services.
6. Links between countries develops.
7. More employment is created (All three sectors in case of export and tertiary sector in case of import).
8. Increases competition and thus quality of local production.

Disadvantages of Foreign Trade

1. Loss of employment in Primary and Secondary sector in case of import.
2. Loss to the local producers.
3. Loss of foreign exchange (in case of import).
4. Importing country can become dependent.
5. Dumping can occur (selling products at a loss).
6. Harmful goods can enter the country.
7. Increase in price level.
8. Exploitation of importing country.
9. Depreciation of currency of importing country.

Steps to be taken in Exporting

1. Market research for:
 - i. Size of market.
 - ii. Competitions.
 - iii. Economy of importing country.
 - iv. Government policies..
 - v. Public Demand.
2. Signing contract with buyer.
3. Getting order from importer.
4. Preparing the consignment.
5. Mode of transportation.
6. Reshipments inspections.
7. Dispatch of cargo.
8. Getting payment.

Documents in Foreign Trade

Indent

Issued by: Importer

Issued to: Exporter/Agent

Purpose: It is an order for goods. It gives full particulars and conditions as regards price, packing and shipment etc.

Shipping Note

Issued by: Exporter

Issued to: Port Authority

Purpose: To request port authority to load the goods to be exported, specifying the quantity of goods and vessel on which goods are to be boarded. Sent together with goods and sometimes before goods are sent so that space is reserved for them.

Bill of Lading (BOL) or (B/L)

Issued by: Master of ship in triplet.

Issued to: Exporter, Importer, Shipmaster.

Purpose: Acknowledging that specified goods have been received on board as cargo for conveyance to a named place for delivery to the consignee who is usually identified Importance.

1. Document of title .
2. Contract of carriage.
3. Receipt of goods.
4. Importer cannot release the cargo from its port unless he has the bill.
5. Exporter can get bank loan against the dispatched cargo upon presentation of documents including bill of lading.

6. Required by custom authority for appraisal of cargo and for verifying quantities.
7. It is also a document of transfer, being freely transferable but not a negotiable instrument.

Information:

1. Name of exporter.
2. Name of importer.
3. Name of agent.
4. Full details of goods.
5. Place of departure and place of arrival of goods.
6. Name of ship carrying goods.

Consignment Note

Issued by: Trucking company (Goods forwarder).

Information: Quantity and description of goods being dispatched.

Purpose: Evidence of contract.

Airway bill

Issued by: Airway company.

Purpose: Same as consignment note, in case of air transportation.

Bill of Exchange

- It is unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or future time, a sum of certain money.
- By this purchases promises to settle a debt on a specific date.
- Can be discounted by the bank.

Bill of Exchange	
London 31 January 2000	Amount US\$ 250,000
60 days after sight	pay against this Sole Bill of Exchange
to the order of Ourselves	
the sum of US Dollars Two hundred and fifty thousand	
for value Received	
To:	For and on behalf of:
Singapore Import Banking Company Bank Street Singapore	UK Export Company Ltd Jas. Smith
Drawn under UK Export Banking Company Ltd, Documentary Credit Nº 12345, Dated 29 September 1999	James Smith, Director

Negotiating and discounting bill of exchange

- If the exporter has bill of exchange of future maturity date, then exporter can ask his bank to release payment against the bill of exchange signed by the importer and other shipping documents.
- Bank will discount the bill at the prevailing rate and give the exporter money less than the face value of the bill.
- On maturity of bill of exchange, the exporter has to pay in full to the bank.

Direct tax/ Income tax

An **income tax** is a tax levied on the financial income of people, corporations, or other legal entities.

Indirect tax

1. Sales tax,
2. Value added tax (VAT),
3. Goods and services tax (GST))
4. Excise duty

Government Expenditure

7. Government consumption on goods and services
8. To provide public services
9. To providing social security – Defense Forces
10. Providing free education
11. Free medical services
12. Running day to day administration of the country

Government Services to Commerce

1. Information Services
2. Co-ordinating Bodies
3. Financial Assistance