

If the cost of factors of production will increase, then the price of the commodities will also increase leading to excess supply in the market as demand will decrease. To avoid this producer will produce less.

Also some producers may be unable to produce as they will not have the capital required. This will also lead to a decrease in supply.

iii. Availability of factors of production

In a situation where there is a shortage of factors of production, supply will decrease.

As a factor of production, the skill of labour can also affect supply.

iv. Prices of other related products

For products that are **jointly produced**, an increase in price of one will lead to increase in supply. The supply of the other product will also increase. E.g. Petrol and Kerosene.

For those products that can be produced in place of the other, e.g. Carrots and Cabbages which can be produced with one acre piece of land, an increase in price of carrots, a farmer will want to produce more carrots than cabbages hence an increase in price of one will cause a decrease in supply of the other.

v. State of technology

Improved technology will lead to increase in supply. For example use of hybrid maize, application of fertilizer will lead to high yields.

vi. Government policy

- **Taxes**- will increase the cost of production hence reducing supply.
- **Subsidies**- it is the payment the government gives producers so to meet the part of the cost of production. This will reduce the cost of production leading to an increase in supply.
- **Quotas**- are a limitation/restriction/ban by the government on the amount of commodity to be supplied. It can be done in two ways ;

i. Physical quantity of goods

ii. Value of the goods (Money). Commonly practiced in the international trade. eg coffee exports, tea exports, car imports, electronic imports and second hand clothes. Quotas imposed reduce the supply of goods.

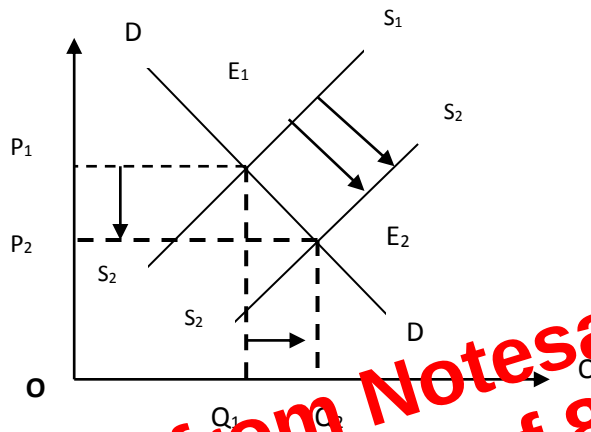
- **Price control**- is fixing of price levels of certain products by the government either to encourage or to discourage production/supply/exploitation of the affected products. eg price of food stuffs, price of petroleum products, price of drugs and price of alcohol. Setting a low price discourages supply while high prices encourage supply.

A decrease in d_d will make the demand curve shift downwards decreasing equilibrium quantity and price.

This is because decrease in d_d leading to a decrease in price and quantity.

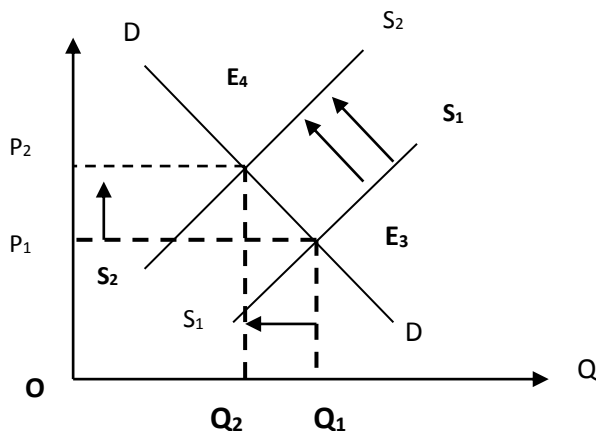
The equilibrium point will shift from E_3 to E_4

b) Change in supply- Increase in Supply



Increase in supply will cause a decrease in Equilibrium price and an increase in Equilibrium quantity. This is because if supply increases, suppliers will have to lower their prices so as to sell the surplus.

Decrease in supply.



A decrease in supply will lead to an increase in P_e and a decrease in Q_e .

Other methods of determining the price of a product

a. Government intervention

The following are the government measures of intervention in price determination.

i. Price control

The government will set the price at which goods will be sold. This usually is done for essential goods this is done to encourage consumption of some goods or protect consumers from exploitation.

ii. Taxation

To influence an increase in price the government will tax goods. To influence a decrease in prices will withdraw or reduce taxes.

iii. Subsidies

The government will meet part of production cost. This will lead to a decrease in prices.

b. Haggling/Bargaining

The price is determined through negotiation. The buyer states the price to sell the commodity and the buyer sets his price to buy the commodity. The seller will reduce the price as the seller increases until they agree on a common price.

c. Auction

Price is determined through bidding. The buyers suggest the price. The one who suggests the highest price (Highest bidder) buys the commodity.

The price of the highest bidder becomes the price of the commodity.

d. Tendering

Buyers are invited to quote their prices independently (without each other's knowledge).

Sellers may also be required to place their tenders in case a buyer wants to buy from convenient suppliers.

One who quotes the most favourable price wins the tender which becomes the price of the commodity.

❖ Improvement in infrastructure

The government does the above functions so as to; create employment and bring about balanced regional development.

vii. Others factors

- i. Availability of auxiliary services
- ii. Room for expansion
- iii. Effects of the firm on environment
- iv. Security
- v. Terrain of the land
- vi. Climate

Localization and Delocalization of Firms

Localization- concentration of similar firms in one particular region.

Factors that could influence Localization

- i. Developed infrastructure in an area attracts firms.
- ii. Large population- provides labour and market hence attracting firms.
- iii. Government policy that requires firms to be located in a particular area.
- iv. Availability of raw materials in certain areas which could be used by the firms.
- v. Availability of support industries e.g. banks, insurance firms etc.
- vi. Need for interdependence of firms in areas like training.

Advantages of localization

- i. Encourages establishment of support business enterprises.
- ii. Encourages development of necessary infrastructure e.g. water systems, roads, communication network, health and education facilities.
- iii. Easy for firms to dispose off their waste products by selling it to other firms for recycling or by having a joint initiative in disposal.
- iv. Helps to create a pool of labour as people tend to migrate to the place where many firms are located. Firms can easily meet labour force requirements.
- v. Encourages creation of employment in the area.
- vi. Localized firms attracts other firms which use finished products of established firms as raw material hence creating market for localized firms.

Implication of production activities on environmental and community Health

Environmental and community health may be affected by production activities in an area. The effects include;

- a) **Air pollution**– caused by emission of poisonous gases into the atmosphere. Air pollution will have the following effects;
 - Acid rain due to emission of sulphur dioxide. The rain will destroy forests, crops and house rooftops.
 - Chlorofluorocarbons (CFCs)– this breaks down the ozone layer which filters the ultra violet rays. This may lead to increased cases of skin cancer.
 - Carbon four oxide and other gases like methane causes “a greenhouse effect”. This may cause global warming causing extreme climatical conditions.
 - Breathing – some gases emitted into the air when inhaled by human beings and animals will cause health problems.

b) Water Pollution

Water pollution can be caused by;

- Dispose of industrial waste (effluents) into water bodies. This marine and human life.

c) Noise pollution

High levels of noise can make one develop hearing problems.

d) Destruction of the environment

Production activities like quarrying, leads to having open grounds which could be dangerous to human beings and be breeding grounds for mosquitoes causing Malaria. Lumbering may lead to desertification.

e) Solid waste pollution

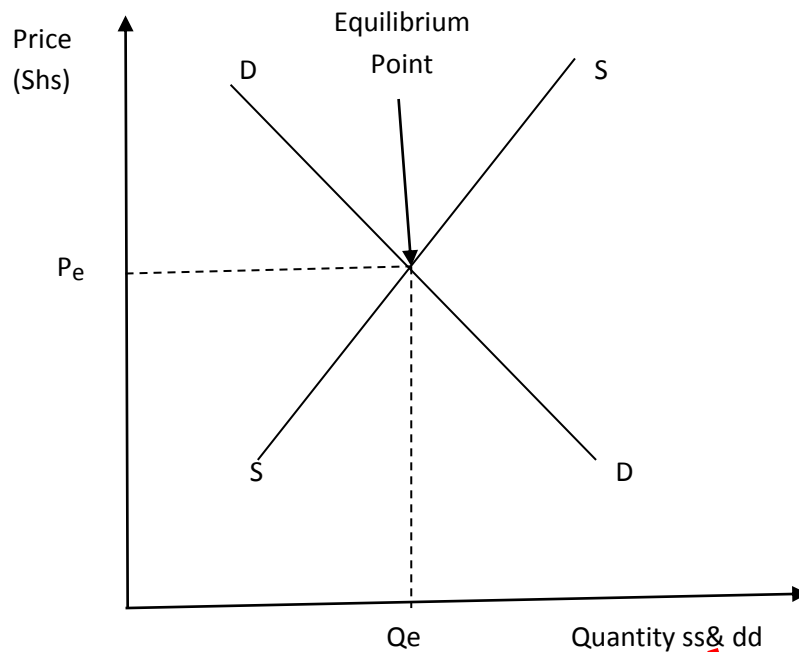
Causes terrible sight to watch, may be breeding ground for flies this could lead to outbreak of diseases like cholera.

Maintaining a Healthy Environment

A healthy business environment is one that is conducive for businesses to thrive in.

A healthy business environment can be maintained by;

- i. Can be done by avoiding activities that **cause pollution** through the following;



Monopoly

This is a market in which a single firm is the exclusive producer and seller of a particular product. For example, Kenya Power and Lighting Company and Kenya Ports Authority.

Features of monopoly

- There is only one producer or seller of the product. The firm is the industry.
- The product sold has no close substitute. Hence no competition.
- There are large numbers of buyers.
- There are barriers to entry into the market.
- The prices are fixed by the supplier.
- There is a practice of price discrimination. i.e. charging different prices for the same commodity in different markets.

Circumstances when price discrimination may be practiced.

- Consumers are in different markets and hence one cannot buy where it is cheap and sell it where the price is high.
- The production of the commodity is done by a monopolist who is able to control production.

- ii. **Geographic concentration of the market/Nature of the market.**
Where the market is centralized in a few geographical areas, direct distribution is okay. However, seller would use intermediaries, in less concentrated markets.
- iii. **Order size** – it is economically feasible to sell directly to customers who can buy their goods in large quantities. The producers would use intermediaries to sell customers who buy in small quantities.
- iv. **Unit value of the product** – Products of high unit value can be distributed directly to the customers due to higher risks they are likely to be exposed to if longer channels of distribution were used.
- v. **Perishability of the product** – Products that are subjected to physical or fashion, perishable must be sold through short, fast channels hence such goods mostly go directly to the customers.
- vi. **Technical nature of the product** – Goods of highly technical nature are normally sold directly to the customers as the seller ought to provide considerable pre-sales and after sales services.
- vii. **Financial resources** – A producer who is financially strong can afford to distribute directly to consumers.
- viii. **The intermediaries** – Different intermediaries perform different functions, hence a firm should select the channel that would be convenient to it.
- ix. **Competitors** – A firm wishing to have its produce compete directly with that of a competitor. Would select a channel that the competitor uses and vice versa.
- x. **Environmental factors** – For example the government laws and regulations may prohibit manufacturers or their own outlets from selling directly to consumers i.e. appointments of the independent distributors may be called for.

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- ♣ Expenditure on factor services from households such as hiring civil servants.

iv. Expenditure on net exports.

Net exports = total exports – total imports. Denoted by (X-M).

National income = C + I = G + (X-M).

N/B. Expenditure on new goods is added in the calculation of national income while expenditure on second hand goods is not added as no production has taken place.

Gross National Expenditure = C + I + G + (x-m)

∇ Export generates income domestically hence they are included.

∇ Imports do not generate income domestically hence they are not included.

The expenditure approach method of measuring national income is at the market price since it involves expenditure on final goods this means that indirect taxes and subsidies have been included.

Problems associated with the expenditure approach

- The private sector does not keep accurate expenditure records.
- Subsistence sector is mere approximation since there are no records kept.
- Suffers from a problem of double counting.
- Difficult to differentiate between final and intermediate expenditure.
- Evaluation of exports and imports will be a challenge due to fluctuation of the exchange rates.

b) Income approach

Include all monies received as income by different individuals (personal income) who contribute to the production of goods and services for example profits, rent, wages and interest.

It also includes money received by the government from its investments and the retained profits.

Income received by entities that have no corresponding output in the economy is not included. This income is referred to as **transfer payments**.

Transfer payments represent a redistribution of income. Examples; national insurance and social security benefits to individuals, students' grants and pocket money.

Hence national income is calculated as;

G.N.I = Personal Income + Public Income + Retained Profits – (Transfer payments + Stock depreciation)

- iv. People have different needs and tastes. As a result national income may not give a true picture of the standards of living.

Factors that influence the level of national income

- i. **Labour supply**—a country with quality labour (skilled) and enough (quantity) supply will be producing more goods and services hence increasing the national income.
- ii. **Capital**—a country with quality capital e.g. modern machinery will produce more than one with simple production tools.
- iii. **Entrepreneurship**—if a country has many entrepreneurs, the factors of production will be organized fully for goods and services to be produced. This will translate to a higher level of national income.
- iv. **Land**—land includes all natural resources like minerals, forests, good climate, fertile soils etc. A country endowed with plenty of these resources will have a higher income than one that doesn't have.
- v. **Level of technology**—the higher the technology used in production the higher the output hence higher national income.
- vi. **Political stability**—a politically stable country will ensure that there is no disruption in production activities hence there will be increased national income.
- vii. **Attitude of citizens towards work.**—a country with hardworking population will translate to increased production resulting to increased level of national income.
- viii. **Foreign investment**—an increase in foreign investment will lead to increased production of goods and services resulting to increased level of national income.
- ix. **Size of the subsistence sector**—a country with a high subsistence sector has a low level of national income since the output may be underestimated.

Revision exercises.

1. {2006 KCSE} Explain five factors that may influence the level of national income of a country. (10 marks)

The following are positive implications of a large population

- (a) A country that has a large population leads to an increase in the **supply of labour** with various cadres of skills.
- (b) A large population leads to **high levels of savings and taxation revenues and investment opportunities**.
- (c) High population leads to **increased demand for goods and services** (wide market)
- (d) A country with a large population tends to be more **creative and innovative** thus leading to technological advancement
- (e) A large population may lead to **maximum utilization of a country's resources**.
- (f) A country with a large population boosts **defense and security**.
- (g) High population leads to **increase in foreign trade** thus creating wealth in the economy

The negative implications of a high population are as follows:

- High population leads to high unemployment levels in a country
- High population may lead to strain on social amenities like hospitals, schools and recreational facilities
- High population may lead to over exploitation of natural resources resulting to environmental degradation.
- High population is characterized mainly by young and ageing population which may lead to high dependence ratio.

Population structure

It refers to composition of the population according to age, sex, income distribution and levels of literacy.

Implication of Population Size and Structure on Development

Positive Implication

- i. Increase in market demand as the number of people increases, the demand for goods and services will increase.
- ii. There will be enough supply of labour which can lead to payment of low wages hence investors will be attracted.
- iii. Technological advancement– people will become more innovative as their population will outstrip the available resources that may not be enough.
- iv. Production of diverse talents. – a high population will produce people of different abilities. This could lead to production of quality goods and services.

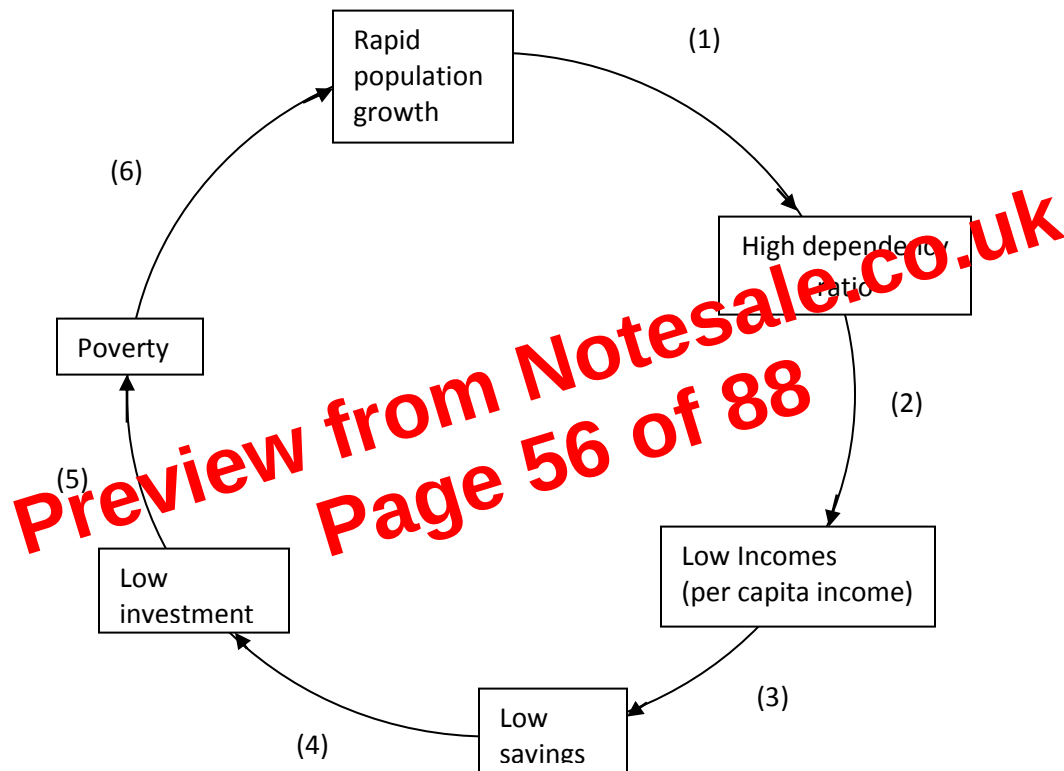
Positive Implication

- i. Can lead to decrease in per capita income– this happens when there is dependence on one factor of production where the output may start declining after some time.
- ii. Can lead to high dependence ration especially when there is high birth rate and low mortality rate also with increased life expectancy.
- iii. There could be reduction on savings and investments as a greater portion of ones' income will be consumed leaving very little for savings and investments.

- iv. Can cause unemployment as number of people will be more than the available opportunities. This can cause rural urban migration resulting to overcrowding and poor living conditions.
 - v. Can cause strain on available resources hence the government not provide adequate social amenities like health, education and housing.
 - vi. May lead to uneven distribution of income as larger families tend to be poorer due to low savings compared to the rich. This will cause income disparities.
 - vii. Can cause environmental degradation as a growing population will over-exploit the natural resources.
- /B. Vicious Circle of poverty.**

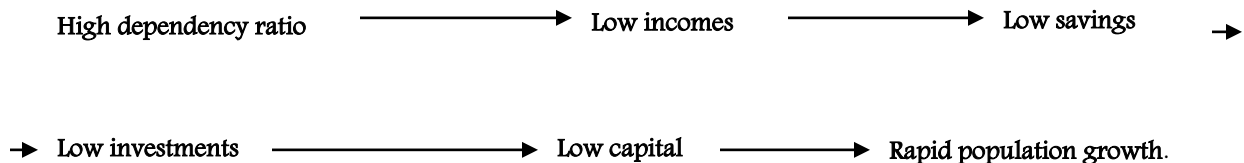
This is a situation where a rapid population growth can cause a series of events that keeps on recurring causing an unending state of poverty.

This is described in the table below.



From the table it is clear that:

A rapid population growth can lead to;



items that make up elements of assets, liability and capital and their respective values.

Net worth of a business

Net worth is said to be the owners claim on the business. This is the amount the business owner may remain with after paying off all the liabilities.

The net worth is thus arrived at by using the formula:

$$\text{Net worth} = A - L$$

A – Assets

L – Liabilities

The figure of net worth should therefore be equal to the owner's contribution plus any retained earnings.

QUIZ

Identify whether the following items are assets or liabilities

Items	Asset	Liabilities
a Bank loan		
b Cash in hand		
c Stock		
d Creditors		
e Machinery		

PRACTICE EXERCISES

1. The following balances were extracted from the books of Kanini traders as at 31st December 2012. Prepare Kanini traders balance sheet as at that time.

Stock	80,000
Debts due from Kanini traders	50,000
Land	120,000
Net worth	130,000
Furniture	75,000
Cash in hand	15,000
Debts due to Kanini traders	35,000
Long term loan	65,000
Bank overdraft	80,000

2. The following balances of assets and liabilities were provided by Kima Traders as at 31st/12/2009.

Item	shs
Bank overdraft	80,000
Land	200,000
Accrued electricity bill	50,000
Stock	10,000

Chapter 10

THE CASH BOOK

Transactions affecting cash are kept in the cash account while those affecting the money in the bank are shown in the bank account.

The cash a/c and bank a/c are kept in the cash book.

Reasons for keeping cash and bank accounts are kept separate from other accounts;

- i. Since most transactions that take place in a business involve cash or bank accounts, it will be too bulky if these transactions are kept in a general ledger. Hence they require a separate ledger.
- ii. The transactions involving money in cash or in the bank are sensitive. Hence can be maintained directly by the proprietor so as to have direct control and management over cash in the business.
- iii. It makes it easy and convenient to make entries in the cash and bank accounts since some cash books show the two accounts on the same page.
- iv. Facilitates division of labour in book keeping records.

N/B. The use of word “**cash**” in this context will be to mean cash in hand and “**bank**” to mean cash at bank

Types of cash books

- a) Single Column Cash Book
- b) Two Column Cash Book
- c) Three Column Cash Book
- d) Petty Cash Book

- e) Analysis Cash book

To be covered In Incomplete documents and books of original entry

a) Single Column Cash Book

It has a cash account and bank account on different pages

Each account has only one money column on each side.

It has the following format

b) Two Column Cash Book

It has two money columns both on the debit side and the credit side. First column is for recording cash in hand and the second column for cash at bank.

Format of a two column cash book

Dr.

Cr.

Date	Details	f/1	Cash	Bank		Date	Details	f/1	Cash	Bank

Example

On March, 1st, 2009, Doris had cash in hand Shs. 87,000 and cash at bank Shs. 250,000.

During the month, the following transactions took place.

- March**
- 2 Cash sales Shs. 60,000
 - 3 Paid salaries Shs. 101,500 by cheque.
 - 7 Received a cheque of Shs. 76,000 from Henry.
 - 13 Bought office furniture by cheque Shs.86,000.
 - 17 Settled Marita's account for Shs.34,200 in cash.
 - 20 Received a cheque for Shs.165,000 in respect of cash sales.
 - 22 Paid wages Shs.25,000 in cash.
 - 24 Withdrew Shs.32,000 from the bank for office use.
 - 25 Withdrew Shs.4,000 cash for personal use.
 - 29 Received Shs.17,000 cash from Alvin in settlement of his account.
 - 31 Deposited all the money into the bank except Shs.24,000.

Required: Prepare a two column cash book duly balanced.