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TRANSPORT

This refers to the movement of goods and people from one place to another. Transport is a part of production because it adds utility to the product by bringing it near to the consumers hence ***place utility***.

**Elements of Transport**

There are four elements of transport namely the way, unit of carriage, the method of propulsion and the terminal.

**The way.** This refers to the means by which the goods are moved. Goods are moved on something. Ways may be natural for example water or man made for example roads and railways.

**Unit of Carriage.** This refers to anything used to carry people and goods. Goods are carried by vehicles, trucks, Lorries, ship, trains, carts and airplane.

**Method of Propulsion**. This is the force that drives the unit of carriage. The common methods of propulsion are engines like jet engines, petrol engines and diesel engines. The selection of the method of propulsion depends on the size of the unit of carriage, speed required and load to be carried.

**The terminal.** This is a place where loading and offloading is done for example railway station, airports, parks, sea port among others.

**Importance of Transport**

Transport plays the following roles to the business community:-

1. It enables the producers to move the goods and services to the consumers for consumption.
2. It helps in transportation of commercial documents like letters. It therefore facilitates communication in business.
3. It leads to growth of industries by moving raw materials from one region to another.
4. Avails consumers with variety of goods and services hence improving their standard of living. Widens market.
5. It is a source of government revenue which is used to improve infrastructure.
6. It promotes the tourist industry hence more income to the government.
7. It encourages commercial farming and specialization due to the large market created. Specialization leads to production of high quality goods.
8. Transport encourages mass production. Goods are produced in large quantities since goods can be transported to distant markets.
9. It minimizes wastage by transferring goods from places where they are in plenty to places where they are scarce.
10. Transport widens the market for goods and services by moving them to where they are required.
11. Transport provides employment opportunities to people who would otherwise be unemployed. Transport industry employs people like drivers, pilots, road cleaners among others.
12. It adds utility to goods and services by availing them to the right person at the right time.
13. It stabilizes prices by allowing a steady supply of raw materials to production centres and goods and services to the market.
14. Transport promotes international trade by moving goods from one country to another. This enables the citizens of a country to enjoy a variety of goods hence increased choice.
15. Transport increases labour mobility and other factors of production. This is because workers can easily move from one geographical location to another.

**Modes / forms of transport**

Road transport

Water transport

Air transport

Railway transport

Pipeline transport

**Road transport**

The common units of carriage used in road transport are buses, taxis and private cars for passengers and Lorries, pick-ups, tankers and trailers for carrying goods.

**Advantages of Road transport**

1. Road transport is flexible as regards changing from one route to another is concerned.
2. Road transport is convenient because vehicles do not move on a tight schedule. This makes delivery of goods very convenient to the businessmen.
3. Roads can be easily constructed in areas which are inaccessible to other means of transport for example hilly areas. This makes it the widely available means of transport.
4. Road transport is relatively cheaper over short distances.
5. It is also fast over short distances.
6. There is minimum handling of goods which reduces on the loss of goods through breakage.
7. Using road transport, goods can be delivered to the final destination of the businessman.
8. Lower insurance premium is paid since the goods are handled for a short period of time.
9. Vehicles can be used to advertise goods as they pass through a mass of people especially in densely populated areas.
10. Special arrangements can be organized for particular occasions for example introduction parties and weddings.
11. It is easier to set up a road than any other means of transport.

**Disadvantages of Road transport.**

1. There is congestion and traffic jam on roads especially in towns which results into delays in delivery of goods.
2. Some roads may be out of use most especially during rainy seasons for example some Marram roads become impassible during winter causing delays.
3. The rate of accidents is high and it has claimed a number of people’s lives
4. High maintenance costs are incurred because roads require periodic maintenance.
5. Road transport is slow over long distances.
6. It is impossible to arrange for return cargo since vehicles do not move on a fixed time table.
7. There is a high risk of highway robbers especially through heavy forests like Mabira.
8. Road transport is expensive for long distances.
9. It has got limited space for carrying bulky goods like timber.

**Railway transport**

This is one of the oldest means of transport in Uganda operated by the Uganda railways Corporation. This form of transport is very expensive to set up because it requires large capital investment in the construction of the railway line and purchase of the train. Now days, railway transport is mainly limited to carriage of cargo.

**Advantages of Railway transport**

1. It is economical for carriage of heavy and bulky goods like coffee, copper, timber among others over long distances. This is because a single engine can pull many wagons.
2. Railway transport is safe as cases of theft and accidents are minimized.
3. Trains can carry more goods and people compared to motor vehicles.
4. Special trains can be chartered to carry particular kinds of goods like petrol, cement among others. Similarly special wagons can be constructed for carrying people.
5. It is reliable because trains follow a fixed time table or schedule. This makes it possible for the businessmen to plan for the transportation of goods.
6. It is easy to arrange for return cargo when using railway transport since trains travel on a fixed time table.
7. Trains are not affected by traffic congestion as for the case of road transport.
8. It is suitable and convenient to passengers who travel long distances because facilities such sleeping, toilet are provided.
9. Trains are not affected by bad weather as for the case of road transport.
10. Shunting facilities are provided to allow the trains to deliver or collect goods to or from industrial premises.

**Disadvantages of Railway Transport**

1. The routes are fixed therefore trains cannot go beyond railway station and therefore a businessman has to arrange for another form of transport to deliver the goods to his premises.
2. Railway transport is slow therefore not suitable for the transportation of perishable goods unless special facilities for carrying such goods are provided.
3. Railway transport requires large capital investment in the construction of the rail lines and purchase of the trains.
4. Goods delay at stations because of the many clearing procedures involved. This leads to delays in delivery of goods.
5. There is a greater risk of damage of goods as a result of increased handling. Goods are loaded into trains and unloaded at railway stations to be loaded onto another form of transport like vehicle to deliver them at the trader’s premises.
6. Railway transport is not flexible as trains follow a fixed schedule.
7. It is uneconomic for short distances and small loads.
8. Trains cannot pass through hilly and mountainous areas so construction of rail lines is restricted to plain lands.

**Pipeline transport**

This form of transport involves the transportation of petroleum products, water and gas from one place to another using pipe.

**Advantages of Pipeline transport**

1. Pipelines allow 24-hour operation with minimal disturbance if any. The pipes are used in the transport of liquid products at any time.
2. Pipeline transport is suitable for transporting flammable products like petroleum and gas.
3. There is no risk of delay due to congestion as for the case of road transport.
4. Pipeline transport is labour saving since it requires less man power.
5. Pipeline transport substitutes heavy tankers hence reducing damage caused by such tankers on roads.
6. It is the fastest means of transport for petroleum products, water and gas. Large volumes of the products can be carried within a very short period of time.
7. Pipes are not affected by atmospheric conditions since they pass underground.
8. It is cheap to maintain since there is little wear and tear of pipes.

**Disadvantages of Pipeline transport**

1. It is only used in the transportation of liquids such as water and petroleum products and gas.
2. Leakages may be difficult to locate and this results into huge loss of the product being transported.
3. It is expensive to construct a pipeline over long distances.
4. Pipeline is not flexible because once a line is constructed it is not easy to adjust it according to transport patterns and demand.
5. Spills may occur accidentally and cause environmental pollution.
6. It does not create employment opportunities for the people since it is capital intensive.
7. Pipeline transport is in most cases unidirectional that is to say it moves only in one direction.

**Water/Sea transport**

This form of transport involves the movement of goods and people by use of units of carriage such as steamers, dhows and ships on water bodies like seas, lakes and rivers. When transporting goods using water transport, the trader can hire a ship to carry goods to a given destination. The ship owner and trader sign a contract known as a **charter party** which an agreement showing the details of goods and the shipping charges. When the ship is hired to carry goods for a particular journey or voyage the contract is called **a voyage charter** and when it is hired for a given period of time, the contract is called a **time charter.**

**Types of Water vessels**

1. **Ocean Liners.** These are vessels designed to carry cargo though some may carry passengers. They follow specific routes at a fixed timetable.

2. **Tramp Steamers.** These are made to carry cargo and go anywhere they find goods to carry. They do not follow a fixed timetable and routes but go anywhere they find business.

**A Line conference** is an association of liner companies who operate on a particular route to withstand unfair completion from tramp owners.

3. **Bulk Carriers.** These are large vessels specially designed to carry particular types of cargo for example minerals.

4. **Oil Tankers.** These are mainly chartered by large petroleum companies to carry their products.

5. **Roll-On-Roll-Off.** These are large ferries used to carry vehicles. The vehicles are driven on the ferry and driven off when they reach their final destination.

**Advantages of Water transport**

1. It is a cheap mode of transport because the way is natural hence construction and maintenance costs are not incurred.
2. Water transport is suitable for the transport of bulky and heavy goods such as timber and machinery.
3. Water transport provides specially built ships for carrying goods that require special handling for example refrigerated ships are used in carriage of perishable goods.
4. The way is free; no country has to pay anything.
5. It is suitable for handing fragile or delicate goods since there is minimum handling.
6. Water transport is economical since the number of employees to carriage volume ratio is less compared to road transport.
7. There is no traffic congestion on the water bodies hence delays are minimized.
8. Water transport promotes international trade especially when it connects to outside countries.
9. Containers reduce on theft and damage of goods.

**Disadvantages of Water transport**

1. Land locked countries like Uganda pay double transport when they use sea transport since they have also to pay for either road or railway transport to make the goods reach.
2. The speed is low hence making it unsuitable for the transportation of perishable goods.
3. Fierce storms and water disturbances may lead to serious accidents resulting into loss of vessels and cargo.
4. Port and harbour congestions lead to delays in delivery of goods.
5. Some water bodies tend to freeze especially during winter like the St. Lawrence sea way making them out of use.
6. Return cargo may be difficult to arrange especially for tramp steamers which do not follow a fixed time table.
7. Water reductions especially during summer seasons greatly affect water transport because some heavy loads may not go over shallow waters.
8. It is expensive to construct artificial harbours in case the natural harbours are lacking.
9. Water transport is only limited to areas with water bodies.
10. Water transport is not suitable for door to door businesses.

**Containerization transport**

Containerization is a process of transporting goods packed in standard sized wooden or metal containers for easy transportation.

Containers are used either as full container Load (FCL) or less than container Load (LCL). In **full container Load** the container is loaded with goods of one exporter. In other words, the shipper loads the container with his own cargo destined for one consignee.

**Less than Container Load** is where the cargo loaded in the container belongs to many shippers/traders. At the port of destination, the container is opened i.e. de-consolidated and deliveries made to various consignees.

**A dry port** is a container terminal where exporters who are located inland take their products to be packed and sealed in containers ready for export. All clearances and documentation is done here. For instance there is a dry port in Nairobi where goods are packed and sealed in containers before being taken to Mombasa port.

**Advantages of Containerization Transport**

1. Goods are protected from damage and harsh atmospheric conditions like rainfall.
2. Loading and off-loading is easy since automatic cranes are used.
3. Movement of containers in sea port is comparatively cheap and simple.
4. Saves time and labour since containers are packed at exporter’s premises.
5. Reduces risks of theft or loss of goods since containers are sealed at exporter’s premises.
6. Special containers are used to carry special types of goods such as chemical and petroleum.
7. Larger consignments of cargo can be carried than if separate units of goods were loaded on a ship.
8. Lower insurance costs are paid because goods are safe in transit.
9. Does not require construction of large warehouses for keeping goods.

**Disadvantages of Containerization Transport**

1. Containers cannot carry all kinds of goods for example containers cannot carry living things like people.
2. The initial cost of manufacturing containers is very high.
3. Loading and offloading may not be possible without automatic cranes.
4. Containerization contributes to unemployment since it is capital intensive.
5. In case of damage of a container all the product may be lost.
6. It is not suitable for goods that are bulky and awkwardly shaped like timber.

**Air transport**

Air transport involves the movement of goods and people by air liners and aeroplanes. A trader enters into a contract with the air way company when transporting goods by air. This contract is called an **Airway bill.**

**Advantages of Air Transport**

1. It is the fastest means of transport making it suitable for transportation of perishable and urgent goods over long distances.
2. It is the best means of transport for carrying valuable goods such as gold since it takes a short time in transit.
3. It is convenient for passengers traveling long distances usually from one continent to another.
4. Air transport is not affected by topographical barriers like high mountain ranges.
5. It reduces loss of goods as there is minimum handling of good which at times is mechanized.
6. The way does not require construction and maintenance costs.
7. Planes can travel where other means of transport would be difficult such as places with high mountain ranges.

**Disadvantages of Air Transport**

1. Air transport is the most expensive mode of transport hence only appropriate for valuable and urgently needed goods.
2. It is not suitable for carrying bulky, awkwardly shaped and heavy goods like timber.
3. Delays in air transport can be caused by bad weather conditions like fog and frost.
4. It is expensive to construct airports and to acquire aircrafts.
5. Cargo and passengers cannot be carried to their final destination. Airplanes end at air ports and therefore the businessman has to arrange for another form of transport to deliver the goods to his premises.
6. In case of an accident, all the cargo and passengers are destroyed.
7. Time is wasted in air traffic control over the air field.
8. Hijackers affect the functioning of air operation.
9. It requires highly trained personnel in all aspects of its operations.

**Factors considered when choosing the mode of transport**

1. **The type of goods.** Perishable and fragile goods need to be handled with extra care in order to deliver them safely.
2. **Transport costs.** The cost of transporting goods should be lower in relation to the value of goods. Cheap goods should be transported by road and railway and expensive goods should be transported by air transport.
3. **Speed and urgency.** Urgently needed goods can be transported by air or road for short distances.
4. **Distance.** Road transport is best for short distances and air and water for long distances.
5. **The terminal.** The availability of loading and offloading points influences the mode of transport to be used.
6. **Flexibility.** The mode of transport chosen should be flexible i.e. easy to change from one route to another, reach goods to their final destination.
7. **Weight of goods.** Heavy goods are economically transported using rail and water transport.
8. **Risks involved.** Lower insurance charges are paid for air transport compared to other forms of transport since time taken under transit in air transport is short.
9. **Bulkiness of goods.** Bulk goods are best transported by sea and rail transport.
10. **Reliability.** The means of transport chosen should provide assurance that goods reach the intended destination at the right time, place and right form.

***REVISION QUESTIONS***

1a) What are the advantages of road transport over railway transport in Uganda?

b) Under what circumstances may a trader prefer to transport goods by railway?

2a) Explain the role of transport in the development of trade in Uganda

b) What are the limitations of water transport?

3a) Define containerization

b) Give any **five** advantages and **four** disadvantages of containerization

**INSURANCE**

Insurance is an Aid to trade that is concerned with compensating businessmen who incur losses they insured. Many people contribute money towards a common pool against various risk from which a few who suffer the loss are compensated.

In Uganda insurers include National insurance company (NIC), Pan African company (PAN), Rio insurance company, Leeds insurance company, State Wide Insurance Company (SWICO) etc.

**The theory of Insurance / how insurance works**

Insurance works on the theory of large numbers in its operation. According to the theory, a large number of people who are faced with similar risks contribute money towards a common pool administered by the insurance company from which a few who actually suffer the loss are compensated. The balance constitutes the profit of the insurance companies.

**Steps taken to open an insurance policy**

**Inquiry from an insurance broker.** The intending insured approaches a broker and seeks information about the policy he/she wants to insure.

**Proposal form**. A person wishing to up an insurance policy is required to fill a proposal form where he/she discloses all the relevant facts concerning the property to be insured.

**Calculation of premium.** On receiving the proposal form, the insurance company will go to inspect the property and the actuary calculates the premium to be paid by the insured.

**Cover note**. The insured after paying the premium is issued with a cover note. A cover note is a proof that premium has been paid and accepted by the insurance company. The cover note is valid for only 30 days.

**Policy.** This is a document which serves as a contract between the insured and the insurer.

**Contents of an insurance policy**

1. Name, address and occupation of the insured.
2. Name and address of the insurer
3. The subject matter of the insurance contract.
4. The scope of the risk
5. Insurance period
6. The premium to be paid
7. The amount for which the risk is insured
8. Principles of insurance/conditions governing insurance
9. Signature of the insurer’s officer
10. Beneficiaries in case of life assurance
11. The policy number
12. The signature of the insured

**Steps of claiming for compensation**

**Notification of the Insurer.**  The insured must notify the insurer about the occurrence of the risk insured immediately.

**Claim form**. The insured fills a claim form to claim for compensation. The insured should give full details of the loss in the claim form.

**Investigation of the claim.** The insurer arranges to investigate the cause of the loss and assesses the extent of the loss.

**Compensation.** On receipt of the assessment report from the assessors, the insurer pays the compensation to the insured. This may be in form of repair, replacement or money.

**Importance of Insurance to the Business community**

1. Insurance compensates businessmen who suffer loss they insured. It guarantees compensation against risks like fire, accidents, theft etc. to businessmen.
2. Life assurance policy can be used as collateral security for securing a loan from a financial institution.
3. Insurance promotes international trade. This is because without it International trade would be difficult to carry out due to the many risks involved.
4. Assures stability of earnings in case of life assurance. Life assurance policies like endowment policy and whole life policy cater for the old age or beneficiaries after the death of the insured.
5. It encourages investment confidence among businessmen as they are sure of being restored to their original financial position in the event of a loss.
6. Contributes to growth of the economy. Money collected as premium by insurance companies is invested in productive ventures for the development of the country.
7. Act as trustees to businessmen by looking after their estates before the beneficiaries are of age.
8. It is a means of savings especially life assurance (endowment policy).
9. In case of co-operative insurance shareholders get both cover and investment.
10. Insurance provides employment opportunities to people who work with them like Actuaries, assessors and insurance agents.

**Basic terms used in Insurance**

The following are the common terms used in insurance:-

1. **Pooling of risks.** This when people subjected to certain risks make financial contributions called premium to the insurance company which makes a pool from which compensations are made when losses occur. This means that the loss of the unfortunate few is spread over the many contributors of the group each bearing a small portion of the loss.

2. **Premium.** This is the amount paid by the insured to the insurer as a consideration for the insurance cover by the insurer and it may be paid in installments or as lump sum. It is the amount of money paid by the person wishing to open up an insurance policy. The premium paid constitutes a pool from which those who suffer the losses are compensated.

**Factors determining the premium to be paid**

1. ***Nature of the property***. For instance in case of fire firms handling flammable substances pay high premium compared to those firms handling substances which are not flammable.
2. ***Type of policy***. The more valuable the policy the higher the premium paid and the less valuable the policy the lower the premium paid for example Aviation policy attracts more premium than third party policy.
3. ***Number of applicants***. The more the number of people applying for the same policy, the lower the premium paid and the fewer the number of people, the more the premium paid.
4. ***Precautions taken to reduce the risk****.* If the insured takes steps to reduce the risk, then lower premium are paid for example in case of fire extinguishers tend to reduce premiums to be paid.
5. ***Age of the property****.* The older the property, the higher the premium paid and vice versa.
6. ***Age of the Person***. For life assurance, the older the age of the person, the higher premium paid and the young people pay a lower premium.

3. **Risk.** This is an event against which the insurance cover is taken for example fire, accidents, theft etc. Risks may be insurable or non-insurable risks. ***Insurable risks*** are ones whose occurrence can be predicted for example fire while ***non-insurable risks*** are risk whose occurrence cannot be predicted for example wars and drought.

4. **Sum insured.** This is the value of property as stated by the insured at the time of applying for insurance.

5. **Insured.** This is the person or organization which takes out an insurance policy. This is the person or organization covered by the insurance company against a given risk.

6. **Insurer.** This is the insurance company which offers the insurance policy to the public. In Uganda insurers include National insurance company (NIC), Pan African company (PAN), Rio insurance company, Leeds insurance company, State Wide Insurance Company etc.

7. **Co- insurance.** This is when a risk is insured with many insurance companies such that in the event of the loss the various insurers contribute to compensate the insured. The insurance company with largest share is called a ***leader*** and the others are called ***co-insurers***. This is done when the property is too valuable to be covered by one insurance company.

8. **Re-insurance.** This is situation where an insurance company insures a risk with a bigger insurance company. The larger insurance company is called the ***re-insurer***. This happens when the property is too expensive to be handled by the first insurance company.

9. **Surrender value.**  This is the amount of money refunded to the insured by the insurer in case the insured terminates payment of premium before the policy matures. The insured is paid an amount less than the total amount of the premium already paid.

10. **Actuaries.** These are people who are employed by an insurance company to calculate the premium to be paid by the insured. They normally base on past statistics.

11. **Assessors.** These are experts who calculate the compensation to be paid to the insured in the event of a loss.

11. **No claim bonus.** This is the discount given to the insured who makes no claim from his policy. This reduces the amount of premium paid by the insured towards his policy.

12. **Claim.** This is the demand by the insured for payment form the insurer due to some loss arising form and insured risk.

13. **Grace period.** This is the time allowed between the date of signing the contract and the date of payment of the first premium. During this period the insurance contract is remains valid.

14. **Annuity.** This is the amount of money that an insurer agrees to pay the insured annually until the insured’s death. It occurs when a person saves a lumpsum amount of money with an insurer in return for a guaranteed payment which will continue until he/she dies.

15. **Beneficiary.** This is a person named in a life assurance policy who is to be paid by the insurer in the event of death of the insured.

16. **Assignment.** This is the transfer of an insurance policy by an insured to another person.

17. **Under insurance.** This is when the insured under declares the value of the property at the time of opening up the policy. Under insurance is when the sum insured is less than the actual value of the property. For instance if a man insures his house for Shs. 6000,000 yet the actual value is Shs. 10,000,000, compensation is based on partial insurance of Shs. 6,000,000 not the actual value.

18. **Over Insurance.**  This happens when the insured over declares the value of the property at the time of opening at the policy. Over insurance is when the sum insured is greater than the actual value of the property. Over insurance is illegal and may lead to nullification of the policy. Compensation is based on the actual value of the property.

19. **Settlement.** This is the money paid to the insured by the insurer to fulfill the claim after incurring a loss.

20. **Compensation.**  This is the amount of money paid to the insured to restore him to the financial position he was before the occurrence of the loss. Compensation may be in form of *replacement, repair and money.*

21. **Average Clause.** This clause provides that the insured can only recover such proportion of the loss as the value of the policy bears on the property insured. It is usually included in marine or fire insurance policies. The amount recoverable is calculated as follows:-

Compensation = Value of the policy X Loss

Value of property

Example: If a man insures his house worth Shs. 800,000 for Shs. 600,000 against fire. If it is damaged by fire to a tune of Shs. 400,000, calculate the amount the insured would be compensated.

Compensation = 600,000 X 400,000

800,000

= **Shs. 300,000**

**Principles of Insurance**

Insurance works on the following principles:-

1. **Utmost good faith (Uberimae fides).** This principle requires the insured to disclose all the relevant material facts to the insurer about the property or life to be insured with all honesty. This enables the insurance company to determine the premium to be paid and assess the extent of the loss.

2. **Insurable interest.** This principle states that the insured should insure a property in which he/she has financial interest such that in the event of a loss, the insured is bound to suffer a financial loss

3. **Proximate cause.** This principle states that for the insured to be compensated, there must be a very close connection between the loss suffered and the risk insured against.

4. **Indemnity.** This principle states that the insured is restored to the actual financial position he/she was before the occurrence of the loss. The insured cannot loss or benefit from his policy.

5. **Subrogation.** This principle requires the insured to surrender the scrap or wreck to the insurer after full compensation has been made. In other words, the insurer acquires the rights the insured had in the destroyed property after full compensation is made.

6. **Contribution.** This principle states that if a property is insured with several insurance companies, in the event of a loss each insurer will contribute a small amount to sum up the value of the property before destruction to compensate the insured.

**Classes of insurance**

There are two classes of insurance namely:-

1. Life insurance
2. General insurance

**Life Insurance**

Life insurance is always referred to as Life assurance. It covers insurance of human life. A person can insurance life in which he has insurable interest for example your own life, debtor’s life (to the extent of the debt), wife’s life and husband’s life.

The following are the major types of policies available in life assurance:-

a) ***Term Insurance*.** This is a life assurance that provides protection within a specified period of time whereby if the policy holder dies within this period, he/she is compensated. If the policy holder does not die within this specified period, there is no compensation. It is normally made for a short period of time ranging from one year to twenty years subject to renewal.

b) ***Whole Life Policy*.** In whole life assurance, the person assured pays premiums until he/she dies. In the event of death, the beneficiaries are paid the sum specified in the policy. It also covers serious illness and disabilities that the policy holder may suffer and the insurer pays for the income lost during such periods.

c) ***Endowment Policy*.** This policy requires the insured to pay premium for a specified period of time during which he/she is covered. The sum insured becomes payable at the expiry of the specified period or death, whichever comes first.

d) ***Annuities.*** Under this policy, the assured person (annuitant) pays a certain amount of money to the insurance company, which then undertakes to pay an agreed amount to the annuitant regularly for an agreed period. The insured is paid money annually during his life time as provided in the policy.

e) ***Statutory schemes*.** These are schemes provided by the government to members aimed at providing welfare such as medical services and retirement benefits. Such schemes include National social security Fund (NSSF), National Hospital Insurance Fund etc.

**General Insurance**

This type of insurance covers any form of property against the risks of damage or loss. This type of insurance is called non-life insurance. General insurance is divided into the following:-

* Fire insurance
* Accident insurance
* Marine insurance

**Fire Insurance**

This covers property against damage or loss caused by accidental fire outbreaks.

***Risks under fire insurance***

1. Damage of household property
2. Theft and burglary.
3. Loss of goods due to fire outbreak
4. Consequential losses as fire damaged property is repaired.

**Policies under fire insurance**

The policies fire insurance include the following:-

a) **Consequential loss policy.** This covers later losses that may occur as repairs are being made to a fire damaged property. It therefore indemnifies the insured for the loss of profit due to interruption of business activities as a result of fire. It is also referred to as ***profit interruption policy****.*

b) **Theft and burglary policy.** This covers against thieves who break into houses forcefully.

c) **House hold risk policy.** This insures household property against damage and loss as a result of fire. Such equipment include furniture, kitchen utensils etc.

d) **Sprinkler leakage policy**. This insurance provides cover against loss or damage caused to goods or premises by accidental leakages from firefighting sprinklers. The firefighting sprinklers are devices installed in buildings to provide automatic mechanism for fighting fire outbreaks.

**Accident Insurance**

This undertakes to safeguard property against accidental loss.

***Risks under accident insurance***

1. Motor accident.
2. Loss of cash in transit.
3. Loss of goods in transit.
4. Dishonesty of workers who handle cash.
5. Personal accident/injuries.
6. Injuries inflicted to workers.
7. Injuries inflicted to members of the public by activities of the business.
8. Machinery break down.
9. Aviation accidents
10. Damage of glass plates of the business.
11. Bad debts.
12. Machine breakdown and consequential loss.

***Policies under accident insurance***

The following are the policies under accident insurance:-

a) **Motor vehicle policy.** This insures risks which may occur to motor vehicles or motor cycles especially damage due to accidents. Motor vehicle policy may be:-

i) ***Third party insurance policy***. This covers against damage caused by the vehicle to people and property other than the owner and his/her vehicle. It covers passengers traveling in the vehicle insured, people injured as result of the accident and any other property damaged as a result of the accident. Third party insurance policy is ***compulsory*** *for all vehicles in Uganda*

ii) ***Comprehensive policy.*** This policy covers all those involved in the accident for example drivers, passengers, pedestrians and any other person involved in the accident.

b) **Personal accident policy.** This policy protects the insured (individual) against any accident causing injury, disability or death to him/her. In case of death due to the accident, the sum insured is paid to the beneficiaries.

c) **Cash in transit policy.** This safeguards the insured against loss of cash while in transit. For example when moving cash from the bank to the businessman premises and vice versa.

d) **Goods in transit policy.** This safeguards the insured against loss of goods while in transit.

e) **Fidelity guarantee.** This policy undertakes to insure against dishonesty of particular employees or the entire working staff. It protects the employer against loss of cash or goods due to employee’s dishonesty.

f) **Workmen’s compensation / Employer’s Accident liability.** This policy provides compensation to employees who suffer injuries in the course of carrying out their duties (at the work place).

g) **Bad debt policy.** This policy covers firms against losses that might result from debtors failing to pay their debts.

h) **Public liability policy.** It covers injury, damage or losses which the business or the employees cause to the public through accidents. The insurer pays all claims from the public up to the agreed maximum.

i) **Machine breakdown and consequential loss.** This is taken out to protect against any loss that may result as a result of breakdown of machines leading to low production.

i) **Aviation policy.** This covers against personal accidents and cargo damaged due to aircraft crashes.

j) **Plate glass policy.**  This covers members of staff and customers against serious injuries as a result of broken pieces of glass.

**Marine Insurance**

This type of insurance covers ships and cargo against the risk of damage or destruction at sea. The perils of the sea are storms, sinking, theft and fire.

The policies under marine insurance include the following:-

a) **Marine Hull policy.** This safeguards the ship against damage or loss due to sea perils like storms, sinking etc.

b) **Marine cargo policy.** This policy covers goods/cargo carried by the ship.

c) **Voyage policy.**  This policy covers against losses that might occur for a particular journey for example from port Bell to Mombasa.

d) **Time policy.** This policy covers against losses that might occur for a specified period of time for example January to June.

e) **Mixed policy.** This policy covers against losses on a particular route and for a specified period of time. For example a ship may be covered for the voyage of port Bell to Mombasa from January to June.

f) **Floating policy.** This covers losses that may occur on a particular route, covering all the ships insured along that route for a specified period of time. All ships of the insured sailing along that route are covered for a specified period.

g) **Fleet policy.**  This covers several ships belonging to one person or organization.

h) **Freight policy.** This is taken by the owner of the ship for compensation against failure to pay hiring charges by the hirer of the ship.

**Marine Losses**

The following are some of the losses encountered under marine insurance:-

a) **Actual total loss.** This is a loss which occurs when the ship is lost at sea and all the cargo is destroyed hence subrogation does not exist.

b) **Constructive loss.** This occurs when the ship and cargo are damaged but can be repaired.

c) **Average loss.** This is a partial loss which results into partial compensation to the insured. Average loss may be either general average or particular average loss.

**General average loss** is a loss that occurs as a result of some of the cargo being deliberately into the sea to save the ship and the rest of the cargo from sinking

(***Jettison***). This loss is shared between the ship owner and the cargo owner(s).

**Particular average loss** occurs when part of the cargo or ship suffers damage and therefore the loss is entirely borne by either the ship owner or cargo owner(s)

**Circumstances under which an insurance company may refuse to honour compensation claim**

1. If the insured had no insurable interest in the property insured.
2. In case the period of insurance had elapsed prior to the occurrence of the loss/ expiry of insurance contract.
3. If the insured has not been paying the premium regularly.
4. In case there is no close connection between the cause of the loss and the risk insured against.
5. When the insured did not disclose the relevant facts concerning the property at the time of opening the policy.
6. In case of double insurance and one of the insurance companies has fully compensated the insured.
7. When the insurer discovers that the damage of the property was intentional.
8. If the insured did not report the occurrence of the loss to police hence no police report to verify the cause of the loss.
9. If the loss is beyond the scope of the risk as specified in the insurance contract.

**Insurance and gambling**

Insurance refers to an aid to trade which guarantees compensation to businessmen who incur losses they insured. Gambling is an activity where people contribute money towards a common pool and the lucky winner takes it all like in Lottery.

**Differences between Insurance and Gambling**

1. In insurance, the person taking out the policy should have insurable interest whereas a gambler has no such interest.
2. The main aim of insurance is to restore the insured to the financial position he was before the occurrence of the loss whereas the main aim of gambling is to improve the financial position of the gambler.
3. The insured is expected to pay regular premiums for the insurance cover to remain in force whereas the gambling money is paid only once.
4. Insurance involves pure risks while gambling involves speculative risks.
5. The event of a loss may or may not occur whereas in gambling the event must occur in order to decide the winner and the loser.
6. Insurance is a social blessing whereas gambling is a social curse.

**Reasons why insurance services are unpopular in Uganda**

1. The insurance services are invisible and are only realized when the risk/loss occurs
2. The principles of insurance are not easy to understand/ legal terms are confusing.
3. Insurance services/ firms are not widely spread in Uganda but limited to urban areas.
4. Inadequate sensitization/awareness. People are ignorant about insurance services.
5. Insurance is regarded as a gamble and curse to society thus limited market.
6. People are poor therefore don’t have valuable assets worth insuring/unable to pay premium i.e. life insurance.
7. Some insurance companies are reluctant to compensate in case of loss hence loss of confidence.
8. Insurance services are regarded as an additional expense which increases the cost of running business.
9. Opening up an insurance policy is complicated and involves long procedure.

***REVISION QUESTIONS***

1a) Define the following terms as used in insurance

i) Pooling of risks

ii) Sum insured

iii) Fidelity guarantee

iv) Aviation Hull

b) Explain the basic principles of insurance

2a) State the role of insurance in the development of trade.

b) Describe five risks an owner of a factory is likely to insure against

3a) What factors determine the premium to be paid by the insured?

b) Explain the importance of any four principles of insurance.

**WARE HOUSING**

***A warehouse*** is a building for storing goods until the need for them arises.

The goods that are stored in a warehouse may be finished goods semi-finished or raw materials.

***Warehousing*** is an aid to trade which deals with storage of finished, semi-finished and raw materials until they are required.

**Importance of Warehousing to Business**

The importance of warehousing to a business includes the following:-

1. Warehousing assists in ensuring a steady flow of goods into the market because producers can produce and store goods awaiting demand through warehousing, for instance, products such as crops which are produced during a limited period are made available throughout the year.
2. Warehousing ensures that there is no surplus or shortage of goods. It ensures that goods are stored when in plenty and released to the market as their need arises. This helps to keep prices fairly stable at all times.
3. Warehousing ensures that goods are protected from physical damage and adverse weather conditions. This ensures that the quality of goods is maintained until they are demanded.
4. It helps to store goods until their demand arises. For instance, gumboots, sports equipment and umbrellas are needed seasonally but are manufactured in advance and stored in warehouse so as to satisfy the consumer’s need for them at the right time.
5. Warehousing ensures that goods are protected from loss through pilferage and theft.

(vi) Unexpected demand can be met due to the existence of warehousing. The government, for example collects agricultural goods which includes cereals and stores them as buffer stocks to be used in times of disaster.

1. Warehousing ensures continuous production schedules. This is because manufacturers are able to buy raw materials in large quantities and store them awaiting their need to arise
2. Goods stored in a warehouse can be prepared for sale. They can be blended, branded, packed or sorted out.
3. Warehousing gives the importer a chance to look for a market for the goods while the goods are still in the warehouse.
4. Warehousing helps to improve the quality of goods. For example, goods such as tobacco leaf and bananas mature with time.
5. Warehousing encourages specialization in production and distribution. Producers concentrate on producing while distributors store the goods for sale to the customers.
6. Warehousing creates employment opportunities for the people who work in its various departments like purchases dept., sales dept., sales promotion dept. etc.
7. Warehousing enables the buyers to inspect the goods before they buy them.
8. Warehouses help in taxation. Goods are kept in bonded warehouses until customs duty is paid.

**Qualities of a good warehouse**

Qualities of a warehouse are the features and resources a warehouse should have in order for it to function effectively. These include the following:-

(i) Suitable location. It should be located in an area easily accessible to producers and traders.

(ii) Large/spacious building. The building should be large enough to store different kinds of goods.

(iii) Proper storage facilities. A good warehouse should be equipped with appropriate facilities for handling to cater for all kinds of goods for example refrigerators for perishable goods.

(iv) Safe. It should be well protected or equipped with proper safety measures in case of fire, theft and burglary e.g. should have fire extinguishers.

(v) Skilled and efficient manpower/staff. It should have well trained staff to handle the various activities and provide good services to the clients.

(vi) Good layout. It should have a good layout for easy and speedy movement of equipment, goods and people and allow for enough parking space.

(vii) Proper equipment for loading and off-loading of goods E.g. cranes.

(viii) It should be well constructed/well ventilated and leak proof to avoid damage of goods.

(ix) It should be free from pests and rodents which destroy the goods stored.

(x) There should be a proper recording system in a warehouse to ensure that all movement of goods is properly monitored.

**Types of Warehouses**

Warehouse can be classified in terms of ownership or in terms of goods stored. On the basis of ownership, warehouse may be private or public whereas on the basis of the type of goods stored, they may be bonded or free. These are discussed below:

**Private warehouse**

These are warehouse that are owned by private individuals for the purpose of storing their own goods only. They include; wholesalers’ warehouse, producers’ warehouses and retailers warehouses.

(i) **Wholesalers’ Warehouses**

These are warehouses for storing the wholesalers’ goods as they await distribution or sale. Wholesalers need warehouse because they buy goods in bulk from producers and store them until they are needed by retailers.

(ii) **Producers’ Warehouses**

These warehouses are owned by producers and they are for storing goods prior to their demand. The producers may be farmers or manufacturers’ factories or the farmers’ production points.

**Advantages of private warehouse**

(i) A private warehouse owned by the manufacturer enables him/her to exercise some degree of control over its operations. This is particularly important when the warehouse operation must be co-coordinated with both factory operations and consumer requirements.

(ii) It enables special handling, storage and protection of goods by having special facilities which may not be available in a public warehouse.

(iii) The owner may design the warehouse using his/her own specifications to suit his/her various needs.

(iv) The owner exercises full control of the warehouse and may make major decisions without having to consult anyone.

(v) The owner is not tied down by procedures of receiving and issuing goods unlike in public warehouse.

(vi) The owner does not incur the cost of hiring space unlike with a public warehouse.

**Disadvantages of private warehouses**.

(i) The initial construction cost of a warehouse is high.

(ii) Under –utilization of personnel and facilities may occur especially in times of low volumes.

(iii) Private warehouse may not employ qualified management personnel and are consequently disadvantaged in dealing with management problems which are similarly experienced by small scale firms.

**Public Warehouses**

These warehouses are owned by individuals who do business by renting space to those traders who are in need of storage facilitates to store their goods temporarily.

**Advantages of public Warehouse**

The following are some of the advantages of a public warehouse:

(i) A public warehouse serves a number of customers that deals with the same product. It assembles the small orders from these customers and places one order for all of them. This enables the m to enjoy economies of large scale buying and delivery of goods to the warehouse.

(ii) Goods stored in a public warehouse may be sold without their physical movement from the warehouse.

(iii) Traders can rent space to store their goods.

(iv) Traders do not have to construct their own warehouse.

(v) Goods are insured against risks such as damage by fire and theft.

(vi) A trader may get a short term loan from the warehousing firm by using the goods held as collateral security.

(vii) Apart from the handling, storing and documentation of goods, additional services such as bottling, bagging and repairs of damaged goods can be offered by public warehouses.

**Disadvantages of public Warehouses**

The following are some of the disadvantages of a public warehouse:

(i) The hirer is denied the opportunity to physically handle the goods and is forced to compete for attention with other hires of the warehouse. If the hirer had his/her own warehouse, he/she would have absolute authority on the goods and therefore enjoy individual attention.

(ii) The hirer might may lose contact with his/her customers since they get goods from a rented warehouse, away from the hirer’s premises.

(iii) The hirer might get poor services or miss space due to the stiff competition for the same facilities.

(iv) Documentation involving receipt and release of goods in a public warehouse is likely to be a long and complicated procedure due to the large number of clients (hirers) involved.

(v) Continued renting of space can be even more expensive than constructing one’s own warehouse in the long run.

(vi) Public warehouse are sometimes situated far away from the hirer’s premises unlike private ones which are usually within the vicinity of the owner’s premises.

**Bonded Warehouses**

They are public warehouse for keeping imported goods until customs duties have been paid against them. Imported goods are kept in this type of warehouse if the owner has not paid customs duties. Such goods are said to be goods “under bond”.

**Features of a Bonded Warehouse**

The following are some of the features of a bonded warehouse:-

(i) Goods can be bonded till customs duty is paid

(ii) Goods can be re-exported while in the warehouse

(iii) Storage charges are made on all goods stored in the warehouse.

(iv) Goods can be sold while still under bond

(v) Goods can be inspected or prepared for sale that is they can be repacked, branded and blended while in the warehouse.

(vi) Goods are released only on the production of a release warrant.

**Advantages of a Bonded Warehouse to the importer**

The following are some of the advantages of a bonded warehouse to the importer:-

(i) While in bond, goods can be prepared for sale.

(ii) The owner can look for the market for the goods before paying the duty.

(iii) Some goods lose weight while in the warehouse so the duty paid becomes lower if it is based on weight.

(iv) The burden of paying the duty passes to the buyer if goods are sold while still in bond.

(v) The importer has more time to arrange for payment of customs duty.

(vi) Security is provided for the goods, so the importer is relieved of the task of providing security for his/her goods.

(vii) Some goods improve in quality while in the warehouse, for example, wine and tobacco.

**Advantages of a Bonded Warehouse to the government**

Some of the advantages of a bonded warehouse to the Government are listed below.

(i) The Government gets revenue by duty on the goods

(ii) The Government is able to control the entry of harmful goods.

(iii) The Government is able to verify documents for goods in transit.

(iv) The Government is able to check on the quantity of goods imported.

(v) The Government is able to check on the quality of goods imported.

(vi) The Government is able to inspect type or nature of goods imported.

(vii) The Government is able to check on illegal goods entering the country.

**Disadvantages of a Bonded Warehouse**

Some of the disadvantages of bonded warehouse are:-

(i) Importers may eventually fail to pay the customs duties. This forces the customs authorities to auction the bonded goods in order to recover the duties.

(ii) When the importer withdraws goods from a bonded warehouse in bits, he/she ends up paying a higher duty than if he/she had paid the duty at once.

(iii) The importer incurs costs in hiring a bonded warehouse as opposed to if he/she had a private warehouse

**Organization of a warehouse**

Large warehouses are organized in various departments which include the following:-

**Secretary‘s department**

This department is headed by an officer called the secretary or office manager and it handles all correspondence, records, legal affairs and personnel matters.

**Functions of the secretary department**

1. Keeps up to date and make correspondences with customers.
2. Keeps all company records by opening up necessary files.
3. Advices management on all legal matters e.g. registration and dividends
4. Responsible for staff matters e.g. interviewing, recruiting, appointing, promoting, demoting and dismissal.
5. Arranging for training of staff
6. Maintaining staff records.
7. Improving working conditions and general welfare.

**Accounts department**

This department is headed by the Chief Accountant and handles all accounting work. Major activities like preparation of invoices and statements to be sent to customers, receiving and effecting payments on behalf of the business, preparation of budgets and enforcing costing systems, preparation of wages sheets, and payment of wages and preparation of final accounts at the end of each fiscal year.

**Functions of the accounts department**

1. Maintains accounting records
2. Prepares and sends invoices and statements to customers
3. Prepares the budget plans for the warehouse
4. Calculates and makes payments of wages and salaries to workers
5. Prepares financial statements at the end of the year
6. Analyses the financial position of the business
7. Advises management on the financial matters
8. Ensures that all financial commitments of the business are met

**Purchases department**

This department is headed by a purchases manager. Activities of purchases department includes maintaining a list of regular suppliers, placing orders with the most suitable manufacturer, receiving goods from suppliers, packing, blending or branding goods and maintaining stores records.

**Functions of the purchases department**

1. Maintaining a list of regular suppliers
2. Placing orders with the most suitable manufacturer
3. Receiving goods from suppliers
4. Packing, blending and branding goods
5. Maintaining stores records.

**Sales department**

This department is headed by a sales manager. This department is very important and is mainly responsible for the profitability otherwise of the whole business.

**Functions of the Sales department**

1. Receiving orders from the customer
2. Maintaining a list of all regular customers
3. Assessing the credit-worthiness of customers
4. Enforcing a strict credit control
5. Maintaining a regular sales force.

**Sales promotion department**

This department is headed by a sales promotion manager and responsible for: handling all forms of sales promotion.

**Functions of the Sales department**

1. Handling all advertisements
2. Printing catalogues and prices lists
3. Arranging for special demonstration of goods offered by business
4. Participating in trade shows like (UMA)
5. Attending to customers’ complaints.

**Transport department.**

This is headed by the transport officer. It is responsible for arranging transport for goods from manufacturer and arranging transport for customers who buy in large quantities.

***REVISION QUESTIONS***

1a) What is warehousing?

b) Describe the organization of a warehouse of a large scale business.

c) How does a warehouse facilitate trade?

2a) Outline any **five** qualities of a good warehouse

b) Mention any four advantages of a bonded warehouse to the importer and government.

**SALES PROMOTION**

**Sales promotion** refers to activities aimed at increasing the sales of a product. It is intended to inform, persuade and remind customers of the product.

**Forms of sales promotion**.

1. **Advertising.** This is an act of informing the public about the existence of goods and services on the market and persuading them to buy as much as they can.
2. **Free samples**. Free samples are given for product trial purposes. A salesman will distribute product samples freely in order to familiarize the product to the potential consumers. The consumers in turn buy the products if they find the products suitable for their needs.
3. **Showroom sales**. Some stores , godowns, showrooms are used by business to advertise their products customers come to the showroom where the salesperson provides detailed information about the products and convinces the customers to buy the products for example Hwansung showroom located in Ntinda near Kyambago University.
4. **Giving of gifts**. Free items are given to customers when they purchase goods of a certain value. Gifts include key holders, pens, t-shirts which normally bear the log of the company. Gifts increase the sales of the product because customers are enticed to buy in order to get the free gifts.
5. **Credit facilities.** This involves the selling of goods without the customer paying for them immediately. This helps to increase the sales by availing the credit to customers who would otherwise not be able to buy the good for cash.
6. **Discounts.** This is a reduction in the sales price of a commodity. Discounts may be cash or trade discounts. A cash discount is given to customers who pay their bills promptly while trade discounts are given to customers who buy in large quantities. Customers are attracted to a shop which offers discounts hence increasing the sales.
7. **After sales services.** These are services which are offered to the customers by the sellers after the purchase of goods. They include transportation, advice on the use of the good, installation and maintenance of items. After sales services win the confidence of customers and attract more customers.
8. **Branding.** This refers to giving of a trade name to a product so that it is distinguished from products of other producers. Attractive names are given to products to increase their sales for example Fair and lovely, sleeping baby etc.
9. **Packaging.** This is wrapping of goods in attractive packets so as to attract the customer’s attention. Attractive packaging materials consumers hence increasing the sales of the product.
10. **Loss leader.** A loss leader is a product being sold below its market price to entice customers to enter the shop. As the customer enters the shop, he/she is enticed to buy other products hence increasing the sales.
11. **Market research.**  This is a systematic way of collecting and analyzing information related to marketing activities. Market research helps to find out people’s opinions about the market of a product. The information helps to improve on the quality of the product hence increasing the sales.
12. **Trade fairs and exhibitions.** This is an arrangement by the producers to display their goods to potential customers. A salesman will take the advantage of explaining to the audience the unique features of the product. For example the Uganda Manufacturers Association (UMA) held at Lugogo in October annually.
13. **Personnel selling.** This is the presentation of a product in a conversation with one or more prospective buyers with the aim of making sales. The salesman educates and persuades the customers on the product features such as prices, quality, colour and performance. If he/she wins the confidence of the customer, the product sells.
14. **Guarantees.** A guarantee is a formal assurance that the product being sold will meet certain standards of performance. A guarantee is given for a certain period say two years such that if the product malfunctions within that period, the seller undertakes to repair or replace. This cultivates confidence in the customers hence increasing sales.
15. **Attractive display.** An attractive display of goods in the shop attracts the attention of the customers hence increasing the sales.
16. **Sponsoring programs on radios and television.** Companies can promote their sales by sponsoring programs on television for example Orange Telecommunication sponsored the African Cup of Nations 2010.
17. **Premiums** for example petrol stations give soap on purchase of fuel of a given quantity.
18. **Blending / Quality improvement**. Producers improve on the quality of their products in order to increase their sales.
19. **Renovation of premises / wall branding.** This involves improving the outlook of the premises of the business to attract more customers.
20. **Raffle draws.**
21. **Organizing competitions.**
22. **Good customer care.**

**ADVERTISING**

This is an act of informing the public about the existence of goods or services on the market and persuading them to buy as much as they can.

It is any paid form of impersonal presentation about a good or service made through the mass communication medium.

**Types of advertising**

1. **Informative advertising.** This is a form of advertising which aims at informing the public about the availability of goods or services on the market for example airtime sold here, photocopying services available here among others.
2. **Persuasive advertising / competitive advertising.** This is a type of advertising which aims at convincing the public that a particular brand is more superior than brands of other producers. It aims at creating an inclination in the minds of customers towards a particular product for example ‘*Omo washes dirt and stains which ordinary powder leave behind and champion beer for champions.*
3. **Celebrity advertising.** This is advertising using a famous or popular person which encourages customer who identify with the personality to use the product. For example Pepsi cola uses famous footballers like *Lionel Messi and Christiano Ronald* to advertise their products.
4. **Direct advertising**. This is a form of advertising which appeals to the entire public for example advertising using posters appeals to the whole public.
5. **Indirect advertising.** This is a type of advertising which appeals to a given class of people for example advertising using televisions appeals to the Rich.

**Importance of advertising**

The following are the reasons why firms advertise their products:-

1. Advertising creates awareness of a new product on the market.
2. It maintains the sales of an already existing product. For example MTN Uganda has a wider market but continues to advertise in order to retain the existing market.
3. It bridges the gap between the producers and consumers. By placing an advertisement in the newspapers, a manufacturer establishes contact with his ultimate customers.
4. It informs the customers of changes in prices, quality, quantity and use of an existing product.
5. It helps to build and uphold the image and reputation of the selling firm.
6. It increases the sales of an existing product.
7. Advertising assists to reach people who not accessible to sales persons.
8. It removes the consumer’s prejudice about the product of the firm.
9. Advertising helps to reach new markets.

**Advantages of advertising to the consumer**.

1. It enables consumers to get what they want quickly.
2. It makes consumers aware of the existence of new and old products on the market.
3. The consumers are informed of the details of goods for example the price, quality and quantity.
4. It helps consumers to make comparison of different products before buying.
5. Consumers exercise choice out of the variety offered.
6. Competition is created among manufacturers which lead to improved quality goods and services.

**Disadvantages of advertising to the consumer**

1. It leads to increased prices for goods advertised since the cost of advertising is passed onto the consumers.
2. Advertising at times misleads consumers as it does not disclose the bad features of the product.
3. Advertising induces people to buy goods that they don’t really need.
4. It denies the consumer the opportunity to explore and enjoy a variety of other products.
5. It gives only partial information. Persuasive advertising only shows the positive side by a commodity and leaves out negatives.
6. Intensive advertising creates monopolies leading to exploitation of consumers.
7. Some advertisements tend to have negative effects on the morals like condom adverts.
8. Persuasive advertising makes choice of consumers very difficult.

**Advantages of advertising to the producer**.

1. Bridges gap between consumers and producer.
2. Enables producers to retain market/brand loyalty
3. It creates market for producer/attracts new customers
4. Informs customers about the existence of goods to buy
5. It encourages research which makes producers to improve on the quality of goods.
6. Increases sales hence more profits.
7. It helps producers to introduce new products on the market.
8. Improves the firm’s image.
9. Enables producers to out compete other producers of similar products.
10. It enables market research which induces the producers to improve the quality of goods.

**ADVERTISEMENT MEDIA**

An advertising medium is defined as a means through which an advertisement can be conveyed to the targeted group. It the channel for conveying an advertisement.

**Forms of advertising Media**

There are several forms of media exist in the market. Companies are at liberty to choose the most convenient media which will effectively and efficiently convey the message to the consumers. They include the following:-

1. **Posters**

A poster contains an advertising message in words alone or in words and pictures.A black paper is not a poster but when a message has been put down on it, and then it becomes a poster. A poster is one of the visual aid used in advertising. Posters can be stuck on walls, buildings, trees, posts or any other convenient place where they can be seen easily.

**Advantages of posters**

1. They are cheap to make and use and therefore affordable to most people.
2. It does not take along process to make posters.
3. Posters can convey the message for a comparatively long time if not interfered with.
4. Illiterate people can get the advertising message if they are picture literate.
5. Posters convey the intended message to many people.

**Disadvantages of posters**

1. Posters are silent advertisements and one can easily pass them.
2. They are mostly deficient of entertainment value and therefore people may not spend time reading them.
3. Posters are subjected to public manhandling for example, tearing, soiling, endorsing words or figures on them, before the intended message is conveyed.
4. Posters can only convey messages to people who are picture and word literate.
5. Posters are subjected to adverse weather conditions which destroy them for example, wind or rain.
6. Posters may be too brief to be understood.
7. **Bill -boards**

Some leading companies or their appointed agents usually stick, write or paint their advertisement messages on bill-boards along a main high ways of major cities, towns or in stadium. Look at the pictures of the companies using bill-boards.

**Advantages of using bill-boards**

1. They are conspicuous and can easily attract a large proportion of travelers
2. They are put in strategic points like near traffic lights and round abouts hence many people are therefore able to read them.
3. They can be read quickly since they mostly contain advertising appeals of the selling points, that is, they are not heavily worded.
4. They relatively permanent visual aids used for conveying advertising appeals.

**Disadvantages of using bill-boards**

1. They are expensive to make due to the materials used such as metals and paints. Furthermore, they are written and drawn by artists hence high costs of production.
2. Some motorists may not get time to read them.
3. They may need some security measures such as fencing since the materials used to construct them can be vandalized or stolen by people who intend to use them for other purposes such as scrap metals.
4. **Catalogues**

A catalogue is a business document in the form of booklet with a brief description of the product or product features such as price, quality, quantity and trade discounts. It is normally used by business to reply letters of enquiry from potential buyers. A catalogue can be used instead of a quotation or a price list. Advertisements in catalogue are normally in the form of coloured illustrations or pictures.

**Advantages of a catalogue**

1. A catalogue gives detailed information about the products to be sold for example, prices and discounts.
2. A catalogue can act as point of reference if properly stored and can be used frequently to put down local purchase orders or overseas purchase orders.
3. A catalogue can be used to advertise a whole range of products of a given business.

**Disadvantages of a catalogue**

1. Catalogues are constantly affected by changes in price, stock and fashion which necessitate production of new catalogues usually every year. This can prove to be quite expensive.
2. **Periodicals, trade journals and magazines**

These are publications used by businesses such as manufacturers and wholesalers to inform potential consumers about the products available.

In most cases, the advertisements in this print media will contain attractive colours of the products. Other product features such as quality, quantity, price and product performance will also be included.

**Advantages**

1. They normally contain all the relevant information of the products or several being advertised.
2. They usually last long after publication and can therefore be used to convey advertisements for a long time.

**Disadvantages**

1. Any advertisement put in or channeled through this medium is poorly accessible to literate people.
2. They cost a lot of money to publish and therefore advertising rates are high.
3. Magazines are inflexible because they are targeted at specific readers. An advertisement carried in this form will only reach the targeted readers of the periodical or/ magazines.
4. **News papers**

A newspaper is a publication printed on a regular basis containing mainly news and advertisements. The most common newspapers in Uganda are new vision, Monitor, Bukedde, the Observer etc. These are basically daily newspapers and they contain numerous advertisements.

**Advantages**

1. The advertisements reach many people since newspapers are widely read.
2. Advertisers can choose the page they favour most such as the front page, middle pages or back page. The cost of advertising in these pages differs considerably.

**Disadvantages**

1. Some newspapers are not written in the vernacular languages common to Ugandans like New vision and monitor hence those who cannot read English are excluded.
2. A daily newspaper is always read the day it published. People rarely read old newspapers, therefore advertisement placed in them have the chances of being seen only the day of publication.

**f) Direct Mail**

This involves communication advertising messages directly to potential customers through mail.

**Advantages**

1. It can be selective in its audience.
2. It is fairly easy to check its results.
3. Mailing can be done at will in order to handle replies comfortably.
4. Immediate response is possible due to its direct appeal to potential consumers.
5. It is personalized medium.

**Disadvantages**

1. It is expensive method of advertising.
2. It takes time prepare and dispatch the mail.
3. Some targeted potential consumers might not bother to reply.
4. It is fairly unreliable since the mail may never reach the potential customers.

**g) Radios**

A radio is a communication device which uses electromagnetic waves for broadcasting messages. Business and individuals intending to advertise, write their messages, take them to radio stations, indicate how many times and at what time they would like the message to be aired. The time the message is aired, the length of the message and the number of times is to be aired will determined the cost of advertising. Some of the radio stations in Uganda are Radio samba, capital Fm, Bukedde Fm, NBS Fm, Busoga Fm, Baaba Fm, Akaboozi Fm among others.

**Advantages**

1. Radios have a popular audience and can reach as many people as possible at the same time.
2. Radios broadcasts are carried out in different languages and therefore the advertisements will also reach those who do not understand English.
3. Radio advertisements are more appealing because they usually have musical accompaniment in the background.
4. A radio is more accessible in areas where other media such as newspapers are hardly available.
5. Radio adverts are cheaper than television advertisement therefore suitable for most of the goods.
6. One radio set can serve a number of people at the same time.
7. Advertisements over the radio can be repeated over and over again within short intervals.
8. Using radio, explanations about goods can be made to the listeners.
9. It is a fast means of advertising making it suitable for urgent and perishable goods.

**Disadvantages of Radios**

1. Most people do not listen to advertisements on radio unless they are accompanied by music.
2. It is not listened to by high class people.
3. Some radio stations do not reach some areas of the country making it less effective.
4. Advertisements are read fast and important information may be missed by the people.
5. Continuous advertisements turn to be monotonous and boring to the listeners.
6. They are played in few languages hence some people may not get the information.
7. No illustrations are made using radio therefore the listeners do not get a true picture of the product.
8. Deaf people are not catered for when advertising using radios.
9. Only people with radios will get the information.
10. It leaves no record for future reference.

**h) Television**

Television is an electronic device used for producing on-screen images of distant objects by electromagnetic radiation. It is widely used by modern businesses to relay their advertisement messages to potential customers. A business enterprise will record its intended business advertisement. Televisions in Uganda are NTV, UBC, Bukedde TV, WBS, NBS TV, and Step TV among others.

**Advantages**

1. Televisions are an audio-visual. People are able to listen and view the products being advertised.
2. Advertisements through television are popular because they show most products features which the customers may be interested in.
3. Television advertisements educate the potential customers on usage of products.
4. It caters both for the literate and illiterate people.
5. It gives illustrations hence consumers can get a true picture of the product advertised.
6. Televisions advertisements are entertaining therefore hard to ignore.

**Disadvantages**

1. Television sets can only be if there is a source of power.
2. Televisions sets are expensive therefore few people can afford them.
3. The adverts are presented in a few languages.

**i) Cinemas**

This combines the effects of motion, sound, colour and words of advertise a company’s products or services. Some businesses request for their advertisements to accompany film shows.

**Advantages**

1. They attract the views’ attention because they are interesting.
2. Most cinema hall serves specific clients which mean that they can act as potential customers of the product or service being advertised.
3. The use of goods being advertised can be demonstrated.
4. Cinemas serve both literate and illiterate.

**Disadvantages**

1. Some film shows are only meant for a specific audience e.g. the youth.
2. They are fairly expensive advertising media.
3. Most cinema goers are young people thus only products that appeal to youth can be advertised.
4. Due to increasing popularity of television, cinema attendance has reduced.

j) **Electronic Neon Signs**

These are coloured lights which usually keep on flickering as they display the advertisement.

They are normally used by big companies to advertise their businesses at night for example there are neon signs at various MTN centres in Uganda.

**Specialized Advertising agencies**

These are organizations or companies which offer advertising services to businessmen.

**Services offered by specialized advertising agencies**

1. They handle all arrangements for sales promotion campaign, checking entries received, dispatching prizes etc.
2. They offer expert advice on medium to be used.
3. They have contacts of various newspapers, magazines, radios and television people. They therefore arrangement for publications.
4. They design and arrange for installation of neon signs, bill boards etc.
5. They have contacts with printing presses and arrange for printing of posters, leaflets etc.
6. Their art section designs advertising materials for businessmen.
7. They design and make cinemas and television slides.

**Factors considered when choosing an advertising medium.**

1. The social class to which the medium appeals for example radios for poor people and televisions for the rich people.
2. The age groups to which the medium appeals for example magazines like chik appeal to the youth.
3. The geographical area covered by the medium for example radios cover a wider geographical area than posters.
4. The economic group to which the medium appeals for example technical goods can be advertised through televisions and ordinary goods are advertised through radios.
5. Nature of the product advertised for example adverts for machines need to be demonstrative hence televisions can work better to advertise them.
6. The cost of the medium in relation to the cost of goods. The advertising medium should be relatively lower than the cost of goods for example it is uneconomical to advertise match boxes using televisions.
7. The number of people reached by the medium.
8. The speed and urgency of medium. If it is for fast message then radios work better.

***REVISION QUESTIONS***

1a) what is meant by sales promotion?

b) Describe with examples the forms of sales promotion used in Uganda.

c) Give four disadvantages of advertising to the consumer.

2 a) what is advertising?

b) Give the advantages and disadvantages of advertising.

3 a) State the difference between persuasive and informative advertising.

b) Explain the importance of advertising to the:

i) Manufacturer

ii) Consumer

**COMMUNICATION**

**Communication** refers to the process of conveying information from one person (sender) to another (receiver).

**Importance of communication in trade**

1. It widens markets as businessmen are able to make people aware of the services or goods they offer.
2. Communication allows consumers complaints to reach producers or suppliers.
3. During emergency cases, communication saves life and property of people.
4. It allows sending instructions about trade like delivery notes to those concerned.
5. Communication keeps producers and consumers in touch thus strengthening their relationship.
6. Communication promotes record keeping for example through letters which is necessary for future reference.
7. It brings about exchange of views and avoids confusion and misunderstandings.
8. Communication enables goods to be transferred from areas of plenty to areas of scarcity.
9. It creates employment opportunities to people for example those in Telecommunication companies like MTN, Airtel, and UTL among others.
10. It saves time in trade and reduces costs as movements are minimized.
11. It enables producers to cope with competition since they are aware of the market conditions.
12. Communication breaks the ignorance of the consumers hence reducing exploitation by the sellers.

**Forms of communication**

Communication takes two forms namely; Oral communication and written communication.

**Oral communication.**

This is communication by the word of mouth. This may be face to face communication, verbal communication, use of the telephone among others.

**Advantages of oral communication**

1. It is faster than any other means of communication.
2. It caters even for the blind people.
3. It gives an opportunity to many people to listen.
4. It gives immediate response.
5. Emphasis can be made by use of non verbal communication like facial expression, gestures and variation of voice tones.
6. Information can be recorded and listened to or viewed after a long period of time.
7. It gives chance to the receiver to probe.

**Disadvantages of oral communication**

1. No reference is normally left for oral communication hence easily forgotten.
2. It is expensive for example buying a telephone.
3. It does not cater for the deaf people.
4. It is affected by physical barriers for example noise, weather etc.

**Written communication**

This is a form of communication where the message is written by the sender and sent to the recipient. Written communication may be in form of letters, telex, telegrams among others

**Advantages of written communication**

1. It can be passed from one person to another without distortion.
2. It leaves a record for references purposes.
3. The message can be received and picked by the receiver any time.
4. It provides detailed information.
5. It is one of the cheapest means of communication.
6. It provides the sender an opportunity to plan the message and similarly the receiver can also plan the response.
7. Illustrations are possible with written communication. Pictures can be drawn to explain the message.

**Disadvantages of written communication**

1. Letters may not reach their final destination.
2. It is slower than oral communication.
3. It only caters for the literate class of people.
4. The message may be too brief to be understood by the receiver.
5. It may land in the hands of a wrong person who may destroy it.
6. If not planned properly, it may cause problems to the sender for example in case of breach of contract.

**Services offered by the post office**

Services offered by the post office include the following:-

Letter post services

Telephone services

Telex services

Fax services

E-mail

**Letters**

This is written information sent by one person to another. A letter bears the address of the addresser and address of the addressee.

**Registered post.** This is posting which receives security of mail or parcel by the post officers. The sender has to register with the post office and the registration fee depends on the weight of the mail. Letters are registered such that if they get lost, the post office undertakes to compensate the sender.

**Speed post or Express letters.** These are letters which are intended to be sent faster than the ordinary mails. They are hand delivered to the addressee very quickly. The service costs more than ordinary post.

**Flanking machine**. These are machines bought or hired by business organizations from the post office. They print the amount of postage on the envelopes with the name of the sender. The post office is paid the total amount shown by the machine at the end of a given period.

**Rental boxes.** The post office has rental boxes for private people and companies through which they receive their mails. The renter may be required to pay annual fees to the post offices and they are given keys for boxes rented. Any time the renter can come and open to check for the received mails. For example Budini secondary school rent **box 155**, Kaliro.

**Post Restante.** This is a service offered to travelers who are likely to be in a particular area for a short period of time and hence do not have post office box number. Such people may advice their friends and associates of the town they are likely to stay in on given dates so that their letters be sent to that particular post office addressed as say:

*Mr. Bakumbaine Noah*

*Post restante*

*Lira post, Uganda*

**Advantages of using letters**

1. It is a cheap means of communication.
2. Detailed information is sent by means of a letter.
3. Illustrations and pictures are sent by letter
4. It acts as a record for reference purposes.
5. Multiple copies of the same message are sent to different people at the same time.

**Disadvantages of using letters**

1. Letters normally delay on the way hence not suitable for sending urgent information.
2. The sender does not receive immediate response.
3. It is not suitable for sending confidential information since letters pass through many hands.
4. Letters may be lost on the way if not addressed properly.
5. It is not a suitable means of communication to the illiterate society.

**Telephone**

This is a form of communication where a person gets into contact with another person by talking through a telephone receiver. Most telephone services provided by the post office are land lines. Individuals just subscribe to use this service and they are called subscribers.

**Telephone equipment**

The telephone equipment includes the following:-

1. **Subscriber trunk Dialing** (STD). This means automatic dialing for any call without contacting the switch board operator in the main post office. In this case the subscriber dials the code number and the receiver’s number and the connection is made automatically.
2. **Private Manual Branch Exchange** (PMBX). This means that connections are made through the switch board so that incoming calls are received and out going calls are sent through the switch board operator.
3. **Private Automatic Branch Exchange** (PABX). This means that connections of the extension to the switch board are automatic such that incoming calls are received and outgoing calls are sent automatically without the help of the switch board operator.
4. **International subscriber dialing** (ISD). This is used when calling abroad through the international switch board.

**Mobile telephones**

Mobile phones today have become the major means of communication in Uganda. This service is provided by the mobile phone providers like MTN-Uganda, Airtel, Mango (UTL), Orange and Warid.

**Advantages of telephones**

1. It is the fastest means of sending information therefore suitable for urgent messages.
2. It reaches people who are apart/wide geographical coverage is covered.
3. It save time that would be involved in writing letters.
4. The reply is received immediately/instant responses.
5. It is relatively cheaper/affordable means of sending information.
6. Records of a message can be kept by use of text messages or recording.
7. It avails information about payments of money through mobile money and internet banking.
8. Allows dialogue between a trader and supplier or customers.

**Disadvantages of telephones**

1. They are costly in terms of purchasing handsets and airtime.
2. They cannot be used in some areas due to lack of network coverage.
3. They make people poor due to increase in expenditure especially when they are not used for business but leisure.
4. They are a risk to the health of the user.

**Telegram**

This is a written short message that goes through the post office. The addressee gets a copy of the printed message on the same day. The cost of a telegram depends on the number of words used.

They are normally used when the message is very urgent but not confidential for example

*Dady,*

*Fees wanted now*

*Tasoola-Budini s.s*

**Telex services.** This involves the sending of messages by means of teleprinter machine. The message is typed at the sender’s machine and automatically printed at the receiver’s machine.

**E-mail services.** This is an electronic way of sending and receiving massages by use of the computer. The sender addresses the message to the E-mail address of the receiver.

**Reasons why people are moving away from post office services**

1. The services offered by the post office are slow for example transferring letters from one place to another takes many days.
2. The services of the post office are unreliable for example letters get lost on the way.
3. The services of the post office are expensive in the modern world.
4. Introduction of more efficient and effective technology like introduction of computers has made people to move away from post office. Now days people send Emails not letters.
5. Most of the post offices are urban based making their services only accessible to few people.

**Factors influencing the choice of a communication media**

1. **The cost of the medium.** The medium should be cheap for example letters are cheaper than telephones.
2. **The nature of the messages**. If the message is detailed and illustrative, a letter is better than any other means of communication.
3. **Urgency of the communication**. Urgent messages are normally sent by telephones and if the message is not urgent, letters work better.
4. **Distance.** For long distances telephones work better than letters and face to face communication.
5. **Need for reference.** If the message is needed for future reference, written messages are better than use of telephone.
6. **Feedback**. Messages requiring immediate feedback need to be sent by telephone.
7. **Confidentiality.** Confidential messages are sent by letters in a sealed envelope.
8. **Number of people to receive the message.** If there are many people to receive the message, letters are better than other means of communication.
9. **Availability of the means.** The businessman must choose a means of communication which is readily available in the locality.

**Factors affecting effective communication**

1. Language barrier between the two parties involved.
2. Unclear messages/terminologies. Use of unfamiliar terminologies by the sender affects communication.
3. Presence of distracters like noise in an area makes communication to be ineffective.
4. Poor planning and presentation of messages. If the message is not properly planned and presented by the sender, communication will not be effective.
5. Different perceptions. The message may be misunderstood by the receiver affecting communication.
6. Lack of interest on the part of the receiver.
7. Lack of adequate communication equipment. The sender or receiver may not have communication equipment like telephones.
8. Lack of network coverage. For the case of telephones, lack of network coverage in an area impends communication.
9. Illiteracy. Inability to read and write limits communication between the sender and receiver.
10. Slow and poor postal services/delays in transmission affects communication.

***REVISION QUESTIONS***

1a) What is communication as used in commerce?

b) Explain any: i) five role of communication in business as an activity

ii) four factors considered when choosing a means of communication

2a) State three advantages and disadvantages of each of the methods of communication

i) Telephone ii) Letter

b) What is the role of communication in development of commerce?

**PUBLIC FINANCE**

The government provides a number of social services to the people at reduced costs for example water, sewage, power, communication, transport, schools and medical care. All these services require money to finance them.

Public finance is the collection of revenue by the central government and local government to provide public utilities.

**Forms of government expenditure.**

Government expenditure is classified into the following:-

1. **Recurrent expenditure**. This is known as consumption or operating expenditure. It involves direct purchase of consumption goods and services by the government. It involves spending on wages and salaries of teacher and other civil servants.
2. **Development expenditure.** This is known as capital expenditure. It involves the direct purchase of capital goods by the government for example road and bridge construction.
3. **Transfer payments.** This is government expenditure in form of services such as scholarships and bursaries to students, famine relief, pensions among others.

**Sources of public finance**

In order to finance its activities, the government raises money from the following sources:-

1. **Taxes.**  Taxes are compulsory payments levied by the government on individuals, firms and contribution regardless of the benefit they get out of it. It contributes the largest percentage of government revenue.
2. **Government borrowing**. The government borrows both internally and externally in order to finance deficit budgets. Internally the government can borrow through the sale of treasury bills and government stocks and borrows externally from international organizations like International Monetary Fund (IMF) and World Bank.
3. **Rent and Rates**. The government also rents out its property to the public such as buildings and land. The rent and rates paid from this services form part of government revenue.
4. **Sale of real estates**. The government sells assets that belong to its parastatals and other state corporations as well as local authority assets. This may take the form of privatization of state corporations and sale of council assets.
5. **Interests**. The government charges interest on loans borrowed by the public through its corporations. The interest collected is in turn used to finance public utilities.
6. **Fines and fees.** Fines are the amount of money that must be paid by individuals or companies for breaking laws. The fines are collected by law courts on behalf of the government. Fees are the amount paid for professional advice or direct services rendered by the government for example road licenses, import licenses e.t.c.
7. **Earnings from investment abroad.** The government may have investments in other countries. Profits earned from such investments contribute to government revenue.
8. **Earning from visible and invisible exports.** The government earns revenue from visible exports like coffee, cotton and from invisible exports like the tourism industry.
9. **Royalties.** These are payments arising from the use of natural resources by companies and individuals for example the use of mines and forests.

**Taxation**

A tax is a compulsory contribution by individuals and companies imposed by the government regardless of the benefits individuals deriver out of tax.

**Reasons/Purpose of taxation**

The following are the purposes of taxation:-

1. **To reduce income inequality**. Taxes are used to reduce income inequality by taxing the rich heavily and the poor lightly.
2. **To promote economic growth.** Taxes are used to foster economic growth by establishing its own investments for example by setting up public corporations.
3. **Provision of social services.** Taxes levied are used in the provision of social services like construction of roads, hospitals and schools at subsidized prices.
4. **To control inflation.** Taxes are used to reduce the disposable incomes of individuals hence reducing their purchasing power.
5. **To reduce balance of payment deficit.** Taxes are imposed imports in order to reduce their volume hence reducing the balance of payment problems.
6. **To reduce consumption of harmful.** Heavy taxes are imposed on harmful commodities like cigarettes in order to reduce their consumption.
7. **To protect infant domestic industries.** High taxes are imposed on imported goods in order to protect infant domestic industries from competition with cheap high quality goods from abroad.

**Principle of Taxation**

The following are principles of a good tax system:-

1. **Certainty.** The amount of tax, time and method of payment should be known to the tax payer.
2. **Simplicity.** A good tax should be simple to understand by both the tax authority and tax payer to avoid confusion.
3. **Convenience.** A good tax should be convenient to the tax payer. The tax should be collected when the tax payer has received income for example during the harvesting period for the farmers.
4. **Economy.** Collection and administration of a tax should involve less costs. The tax becomes uneconomic if the collection and administration costs exceed the revenue got from the tax.
5. **Equality and fairness.** A tax must be imposed in such a way that the incidence of the tax be equal and fair on individuals of different income levels. This is achieved when the tax is progressive (tax increases with increase in income).
6. **Ability to pay.** The tax payer should be in position to pay the tax imposed on him/her. High taxes result into high rates of tax evasion by the tax payers.
7. **Productivity.** A good tax should give greater revenue to the government.
8. **Diversity.** Different types of taxes should be levied on different groups of people so that the burden is spread to different people.
9. **Elasticity.** A good tax should be in position to be increased and reduced depending on the economic situation in the country.

**Types of Taxes.**

There are two types of taxes namely:

Direct taxes

Indirect taxes

**Direct taxes**

These are taxes imposed on income, wealth or spending power of individuals and firms. The impact and incidence of the tax is on the same person. Examples of direct taxes are:-

1. **Income tax**. This is tax imposed on incomes of people e.g. Pay As You Earn (PAYE).
2. **Corporate tax**. This is tax levied on the profits of companies.
3. **Capital gains tax**. This is tax levied on profits made from sale of an asset.
4. **Estates duty or death duty**. This is tax levied on property inheritances.

**Indirect taxes**

These are taxes imposed on commodities. The impact and incidence of the tax are on different people. Examples of indirect taxes are:-

1. **Specific taxes**. These are taxes determined on the basis of the quantity of volume of goods.
2. **Advalorem tax.**  This is a tax determined according to the value of goods. For example taxes on vehicles are based on the value of the vehicle.
3. **Customs duty.** This is tax imposed imported or exported goods. This may be import duty or export duty.
4. **Excise duty.** This is tax imposed on goods produced within the country.
5. **Value added Tax (VAT).** This is tax imposed on commodities at every stage of production. VAT = Output tax – Input tax.

***REVISION QUESTIONS***

1a) Mention any four sources of government revenue

b) State the principles of taxation

2a) Distinguish between direct and indirect tax

b) State four advantages and disadvantages of indirect taxes