

Book I

Year II



**Business
Studies**

Business Studies

Year 11 Book One



GOVERNMENT OF SAMOA
DEPARTMENT OF EDUCATION

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INTRODUCTION

Business Studies aims to enable students to participate effectively in economic activities and to cope with the complexities of modern financial resource management. The Year 11 Book One for Business Studies will cover the aims and objectives specific to the three curriculum strands of:

- Producers' decisions.
- Consumers' decisions.
- The market.

The main emphasis of this book will be on economics. While some concepts covered in Years 9 and 10 will be reviewed, this book assumes that students are familiar with economic concepts and principles as stated in the Curriculum Statement for the earlier years. Teachers will need to ensure that students who are doing this subject for the first time in Year 11 are given opportunities to learn those concepts and principles.

Economics

Economics is about how individuals and organisations try to make the best decisions about using the resources available to them. It is the study of Consumers and Producers and how they answer this question:

How much of each type of good or service should be produced, and how much are these worth?

Economic choices

Economics is part of our everyday lives. Individuals are faced with many economic choices as they go about their daily lives. Some day-to-day choices are **non-economic**: *e.g. What will I wear to work, will I play kilikiti or do my homework.* However, most decisions that individuals are faced with each day are **economic** ones: *e.g. What do I buy for the family evening meal, how much do I give for my cousin's wedding, how will the decrease in the exchange rate for the \$US affect my budget and how much will the increase in the VAGST rate to 12.5% add to my weekly costs.*

Businesses, community organisations and governments also make economic decisions. The decisions that they make affect many individuals and influence the choices that these individuals then make for themselves.

This book takes a look at how businesses, community organisations and governments operate to make the necessary economic decisions and the effect that these have on consumers.

Unit 1: BUSINESS ORGANISATIONS IN THE SAMOAN ECONOMY

Unit objectives

This unit of work relates to the ‘Producers’ Decisions’ strand of the Business Studies Curriculum statement. Through study of the unit, students will understand the diversity and goals of producers. Students will investigate and develop their skills and understanding of business types in the Samoan economy when they:

- Compare the three different business organisations present in Samoa — private, government and non-profit.
- Describe the different ownership, financial and management structures of private organisations.
- Describe the role that government organisations play in satisfying the needs and wants of consumers.

Introduction

Producers are people or organisations that provide services or combine resources to make goods. This activity is called **production**. Production in Samoa is organised through the different types of business organisation that exist in the economy. These businesses have to make decisions about how to combine the **factors of production** available to produce goods and services required by consumers. The four factors of production are **land, labour, capital (finance)** and **entrepreneurship**. These are the resources used by business organisations to produce goods and services.

Business organisations can be categorised according to whether they are profit making or non-profit making or categorised by the type of ownership. The different types of organisations involved in production include **private enterprise, government organisations** and **non-profit organisations**.

Why each organisation operates

Producers set up business with different goals in mind. The main goal for private enterprise is maximising profits. The main goal for government is to look after the welfare of its citizens. The main goal for non-profit organisations is meeting the needs of their members.

Private enterprise will usually only produce goods or services that give them a good return or profit. The goods and services provided by the government are usually non-profit activities such as health and education. The government also provides some goods and services that are profitable, such as housing and agricultural production. The government is involved in such areas to provide competition with business organisations in the private sector and sometimes uses this mechanism to control the private sector. The Samoan government is involved in many areas that governments of other more-developed countries do not provide any funding for.

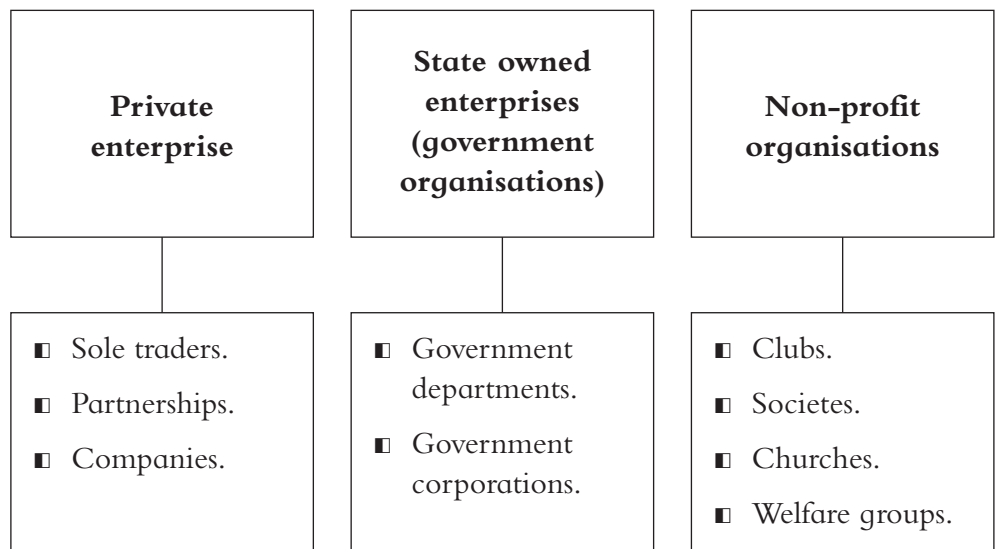


Figure 1.1
Business organisations in the Samoan economy.

Private enterprise

The main goal for organisations in the private sector is to maximise their profits. There are different types of business structures in the private sector. In Samoa, the majority of businesses are owned by one person. These types of businesses are known as **sole traders**. There are many reasons why individuals start up their own businesses. These include the opportunity to be their own boss, having control over what hours they need to work and being able to make the decisions necessary to maximise profits.

Types Of Business Ownership

There are three main types of ownership structures for businesses in the private sector.

Sole trader

The **sole trader** is the most common business organisation and is the easiest to set up. A sole trader has the following characteristics:

- Has just one owner.
- The owner owns all the assets of the business.
- The owner keeps all the profits.
- The owner is responsible for all the debts of the business.
- The owner's personal assets may be sold to repay any business debts.
- Financing for the business is limited to the owner's contribution of capital or through loans the owner can raise or through reinvestment of profits.
- The owner makes all the decisions about the day-to-day running of the business.

The owner of a sole trader business has **unlimited liability**. This means that the owner's personal assets may be sold to repay any business debts should the business get into any financial difficulties. The majority of sole traders in Samoa are small businesses where there are only a few employees. Individuals who want to start up a business usually do so as a sole trader. However, a lot of sole trader small businesses fail with the owners and other funding agencies losing money in the process.

Partnership

A **partnership** is a business organisation that has two or more owners (partners). A partnership has the following characteristics:

- A partnership can have 2–25 partners.
- The partners jointly own the assets of the business.
- The partners share all the profits according to the ratio agreed to by all the partners.
- The partners are jointly responsible for all the debts of the business.
- Partners' personal assets may be sold to repay the debts of the business.
- Financing for the business is available through the contributions of capital by the partners, loans that can be raised by them or by reinvestment of profits.
- The partners make all the decisions about the day-to-day running of the business.

The partners of a partnership business have **unlimited liability**. This means that the partners' personal assets may be sold to repay any business debts should the business get into any financial difficulties. Some partnerships may have a **sleeping partner**, a person who invests capital in the business but does not participate in any decision making or work of the business. They usually do not receive a share in the profits. A legal agreement between the partners is usually drawn up to set out the rules of the partnership. A **partnership agreement** or a partnership deed is a formal document that sets out details for the partnership stating:

1. How much capital is to be contributed by each partner.
2. What wages each partner should receive.
3. The shares of the profits that each partner will get.

If the partnership does not have an agreement, then the rules set out in the **Partnership Act (1908)** will apply. In such a situation, the partners get equal shares of the profits. Samoa still adheres to the New Zealand Partnership Act (1908).

Companies (private limited liability)

A **private company** is a business organisation that may be established by a family, business associates or a group of friends. This is the most common form of company that exists in Samoa. This type of business is also known as an **unlisted company**. It has the following characteristics:

- It normally has between 2–25 **shareholders**, though there is no longer any limit to the numbers under the New Zealand Companies Act (1993).
- The assets of the company are owned by the business as it is a separate **legal entity** from the shareholders.
- The profits of the business are distributed to shareholders as **dividends**.
- The shareholders' liability for debts of the company is limited to the money they pay for shares.
- The shareholders' personal assets are protected because the company has **limited liability**.
- Finance for the business is raised by selling shares to shareholders or from loans or profits not distributed to shareholders.
- An elected director, who is usually a shareholder, normally manages the business.

The shareholders of a company are not personally liable for the debts of the company. Shareholders' liability is limited to the sum of money they invest through the purchase of shares. This is because a company has **limited liability**. The company is a separate **legal identity** from the shareholders. This means that it is recognised by law as a separate body and therefore it has legal responsibilities. It can be sued, it can sue and it must pay taxes. Samoa has yet to finalise its Companies Act as this book goes to print, and so it adheres to the New Zealand Companies Act 1993. This Act sets out the rules which companies must abide by in terms of financial statements and operations. The Act states that "companies must have at least one share, one shareholder, one director and an address for service". In many ways, a private, unlisted company is like a sole trader partnership except that it enjoys the advantage of limited liability. Another advantage is that the company can continue to exist beyond the life of the shareholders as the shares can be transferred. However, it takes time to set up a company and the legal formalities can be costly.

Companies (public limited liability)

Public limited liability companies are also known as **listed companies** as they are on the list of companies whose shares can be bought and sold to members of the public. These companies are large business units that are run by a **board of directors** who are elected by the shareholders at an **annual general meeting (AGM)**. A Board of Directors are shareholders elected to oversee the companies operations and affairs. At the AGM, shareholders who are unable to attend can nominate a proxy or someone who is able to vote on their behalf. When a public company is formed, a **prospectus**, which invites people to invest in the company, is issued. The prospectus also outlines the company's intentions for using the investments to be made by shareholders. A public company has the following characteristics:

- Shares are available for the public to invest in the company. There must be at least seven shareholders.
- The assets of the company are owned by the business as it is a separate **legal entity** from the shareholders.
- The profits of the business are distributed to shareholders as **dividends** or kept in the business for expansion.
- The shareholders' liability for debts of the company is limited to the money they pay for shares.
- The shareholders' personal assets are protected because the company has **limited liability** and is a separate legal entity.
- Finance for the business is raised by selling shares to shareholders or from loans (debentures) or from profits not distributed to shareholders.
- Accounts must be audited annually and published for presentation to the annual general meeting.
- Rules for public companies are set out in the Companies Act 1993 (New Zealand).

- Management are usually paid workers of the company, not shareholders.

Public companies are very large businesses that can raise large sums of capital from the many shareholders. There are very few such companies in Samoa as its economy is too small. An example of a public company is Samoa Breweries Ltd. While some of its shares are owned by the government of Samoa and some members of the public, most of them are owned by an Australian company called Fosters.

The advantages of a public company, apart from having limited liability are that it can raise and invest large amounts of capital (as it can issue more shares) and skilled managers can be employed to run the business. However, the disadvantages are that it is costly to establish and legal formalities must be completed before it can start to operate. The annual accounts of a public company must be audited or checked for accuracy and correctness.

Companies Act

The New Zealand Companies Act (1993) does not distinguish between Private and Public companies. Other features in this new Act are:

- All companies (public and private) can have as few, or as many, shareholders as it requires. Companies must have at least **one** shareholder.
- Companies do not require a Memorandum of Association and Articles of Association (which are all the rules of a company). The Act contains **all** the rules and regulations concerning the operations of companies.
- Companies must prepare their financial statements in accordance with generally accepted accounting practice.

Until it implements its own Companies Act, Samoan companies comply with New Zealand regulations.

Summary

The first table in Activity 1 summarises the information given above about the structure of different business organisations. Some parts of the table are incomplete.

Activity 1 Types Of Businesses

1. Copy this table into your exercise book and complete it using your knowledge gained from what you have read above.

Ownership type	Source of capital	Liability for debts	Management
Sole trader	One owner contributes all capital and keeps all profits.	Unlimited liability — owner's personal assets may have to be sold to repay business debts.	
Partnership			Partners make joint management decisions about the operations of the business.
Company (public/private)			Shareholders elect a director who is then responsible for employing staff to assist in the operations of the business.

2. Copy and complete the following chart:

Ownership type	Number of owners	Advantages of this business structure	Disadvantages of this business structure
Sole trader			
Partnership			
Company			

3. Explain what is meant by the term “limited liability”.
4. Explain why a partnership type of business has unlimited liability.
5. Describe how a sole trader is different from a company.

6. Match the following terms to the descriptions given in the table below.

dividend	company	capital	sole trader
limited liability	partnership	legal entity	shareholders

	An ownership structure where one person has control of the business and receives all of the profits and takes all the risks.
	The amount of money contributed by owners (or shareholders) to establish a business or provide finance as required.
	The share of profits received by shareholders.
	Where the business is recognised as a separate body in law and it has legal responsibilities.
	The owners of a company.
	A business organisation which is a separate legal entity from its owners (shareholders).
	The owners of the business organisation are not liable to repay any debts of the business. They are liable only up to the full value of their shares in the business.
	A business organisation in which the profit is distributed on the basis of an agreement.

Government Organisations

The two types of government organisations that exist in Samoa can be distinguished by the amount of control that the government has over it.

- Total government control — government departments.
- Less government control — government corporations or state owned enterprises.

The government collects taxes from individuals and businesses and income from state owned enterprises such as the Electric Power Corporation. The money it receives from these sources is spent through government departments to provide public goods and services.

Government departments

Government departments are established by the government to provide goods and services that are for the benefit of the public and which private enterprise is unable or unwilling to provide to all people. Goods and services provided by the government are called **public, community or collective goods**. Government departments such as the Education Department and the Health Department are non-profit making enterprises. A Director controls the Education Department and the Health Department is controlled by a Director-General. These directors are responsible to the Government Minister. There are other government departments students may be familiar with. Can you name more examples?

State owned enterprises (corporations)

State owned enterprises have been set up by the government to provide goods and services in competition with private enterprises. They are like companies with the government as their only shareholder. Some corporations are expected to make a profit while others are only expected to provide a cheaper service to those members of the public who cannot afford to pay for these services from private enterprise. Housing Corporation and Accident Compensation Board are two examples.

Government corporations appoint general managers to run these organisations. The general managers are free from political intervention and can make their own business decisions. Government corporations are funded from their trading activities.

In the late 1980s, the New Zealand government sold many of its state owned enterprises to private enterprise to raise revenue to reduce public debt and in the belief that profit-motivated business organisations would operate more efficiently. This process is known as **privatisation**. This step has not been taken by the government of Samoa. When the government creates a state owned enterprise, this is called **corporatisation**. The table below shows some of the advantages and disadvantages of selling state owned enterprises.

<p>Advantages of selling state owned enterprises</p>	<p>Disadvantages of selling state owned enterprises</p>
<ul style="list-style-type: none"> ■ Provides revenue for the government. ■ A more efficient service might be provided to the public by a profit-making private enterprise. ■ Creates opportunity for investors to put money into the economy. ■ Decreases government involvement in the economy. ■ Increases private enterprise opportunities in the Samoan economy. 	<ul style="list-style-type: none"> ■ Could cause unemployment through the loss of jobs when unprofitable services are ceased by private enterprise. ■ Could create a monopoly whereby the new business has no competition and can increase costs for consumers. ■ Public goods and services may become owned by a few wealthy private investors (in Samoa and overseas) who may invest their profits outside of Samoa. ■ Some services and goods may cease to be provided to the public as they do not generate a profit for the private enterprise.

Activity 2**Government Organisations**

- Copy and complete the following tasks in your exercise books.
- 1. What is the major difference between a government department and a state owned enterprise (corporation)?
- 2. Identify one government department that has been corporatised by the Government of Samoa in recent times.
- 3. List the advantages of selling state owned enterprises. List the disadvantages of selling state owned enterprises.
- 4. 'Unlike New Zealand, the government of Samoa has not privatised any of its corporations.' Consider this statement and write a paragraph giving reasons why you think the government of Samoa has not followed in the footsteps of New Zealand in privatising its corporations.

Non-profit Organisations

Clubs, churches, societies and welfare groups

These groups or community organisations are made up of people who come together because they share a common interest or goal. Clubs, churches, societies and welfare groups usually provide goods and services to satisfy non-material needs of consumers. Businesses or the government can satisfy some of these needs but many are not provided. Community organisations are set up by people who recognise that these needs and wants are not provided for by private enterprise or government. Examples include leisure activities such as golf clubs, religious beliefs such as churches, educational needs such as early childhood day-care centres and community service needs such as parents' associations.

Membership in these organisations is voluntary. Non-profit organisations are very often overlooked as producers of goods and services but their activities are important and can involve large sums of money. Examples of large non-profit organisations include YMCA, YFC, Red Cross, SSPCA (Samoa Society for the Prevention of Cruelty to Animals) and CCS (Crippled Children's Society).

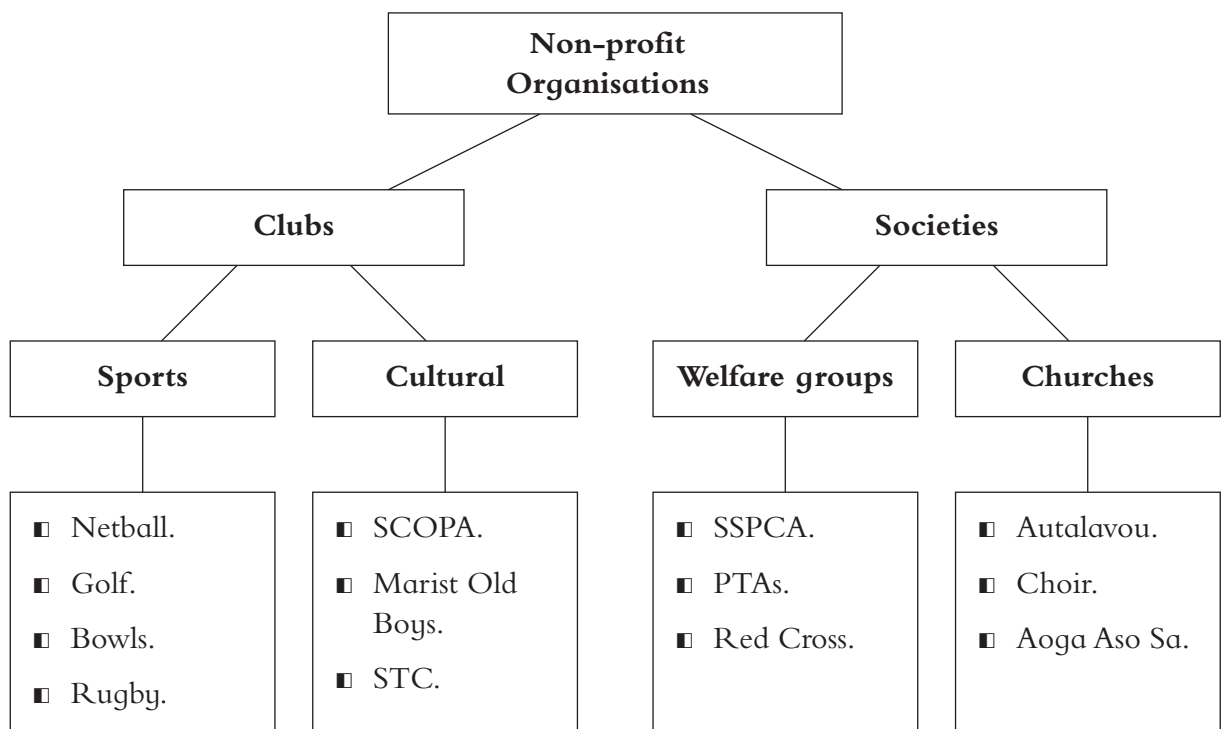
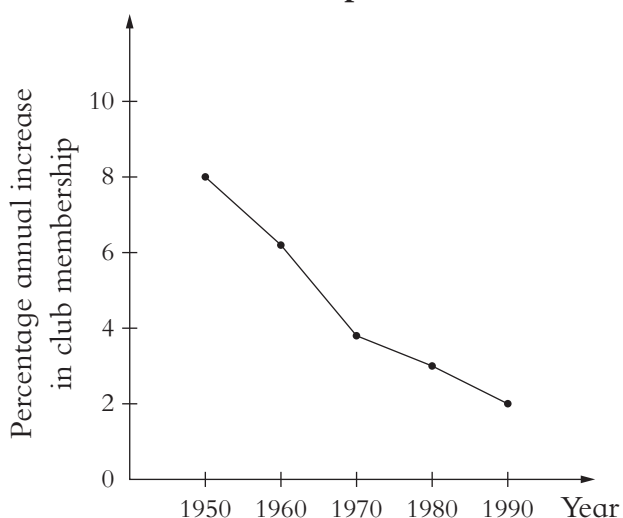


Figure 1.2
Non-profit Organisations in Samoa.

Activity 3**Interpreting Tables And Graphs**

In Business Studies one of the most important skills you will need is the ability to interpret tables, graphs, accounts or other statistics. Every time you see a graph you should be able to write one or two sentences on what the graph tells you. What are the trends, what conclusions can be drawn from the information shown by the graph? The information given below shows participation rates of people involved in non-profit organisations in Samoa and New Zealand. The steps used to interpret graphs are:

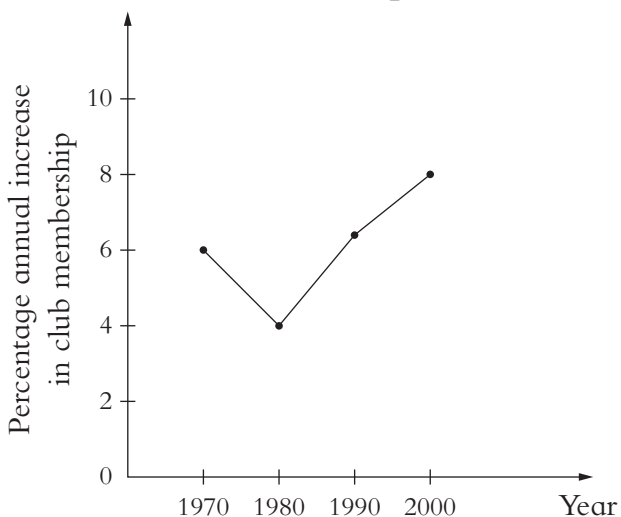
Club membership in New Zealand

Graph One

1. Read the title.
2. Read the axis on the graph very carefully.
3. What does the information show? Is it an increase, decrease or no change?
4. Is the increase or decrease becoming slower or faster?

A comment has been made for the first graph. Use this as an example to comment on the second graph — non-profit participation rates in Samoa.

Trend (graph one) — Club membership in New Zealand is increasing. The period from 1980 to 1990 shows an increase of about 2%. The rate of increase is slowing down. In 1950 membership grew by 8%, but in 1990 membership only grew by 2%.

Club membership in Samoa

Graph Two

Trend (graph two) — to be completed by students.

Figure 1.3

Club membership increases in Samoa and New Zealand.

Unit 2: BUSINESS MANAGEMENT

Unit objectives

This unit of work relates to the 'Producers' Decisions' strand of the Business Studies Curriculum statement. From their study of this unit students will understand the diversity and goals of producers. Students will investigate and develop their skills and understanding of business management when they:

- Identify reasons why businesses can fail or succeed.
- Describe the strategies used by businesses to maximise profits.
- Compare and contrast structures and procedures of different enterprises.

Introduction

In Unit 1 you learned about how businesses exist in different forms depending on their main goal. The ownership and financial structure of a business are closely linked. Sole traders and partnerships are limited in the amount of finance they are able to raise as they rely on personal contributions by the owners. These types of business organisations usually rely on the owners' skills and knowledge to achieve these goals. Owners may decide to change ownership structure so that more finance (or skill) is available to assist the business to grow: *e.g. A sole trader may combine skills and finance with another person to form a partnership.* This unit looks at the different management structures which businesses adopt and the strategies used by business organisations to maximise profitability or achieve their aims.

Business Management

Going into business involves a lot of risk. If you think of the businesses in Samoa, you can group them into small businesses such as village stores or larger ones, such as those in Salelologa or Apia. No matter how small or big the business is, it is still a risky venture. It requires careful decision-making about matters involving risk. This can be reduced if the owner does a lot of research. Businesses can take a long time to become successful and during this time a lot of mistakes are made. Many new businesses fail not long after starting up and eventually close down. List some businesses that you recall have closed down in your village or in the urban area of Apia or Salelologa.

Why do businesses fail? Why do businesses succeed?

Fraud — owners or workers stealing from the business.

Neglect — owners let the business run down by not making an effort.

Disasters — floods, fire, natural disasters destroy the resources of the business.

Mismanagement — the lack of skilful direction of business affairs.

The most common cause of business failure is due to poor management. In New Zealand about 80% of business failure is because of mismanagement. No business can avoid making some mistakes. However, a good business will not repeat the same mistakes and will use this experience to minimise or avoid mistakes in the future. They will also learn from other businesses. Good management techniques will help businesses to minimise losses by avoiding making mistakes.

Activity 1**Local Business Failure**

- Copy and complete the following tasks in your exercise book.
- 1. List three different businesses that have closed either in your village or in Apia, Salelologa or Vaitele in the last five years.
- 2. What were the major reasons for these businesses closing down?
- 3. Describe how these businesses could have avoided closing down using your knowledge gained from the text above.

Features Of Good Management**Market research**

Private enterprise organisations are established with the main objective of making a profit. To achieve this objective businesses must be market-orientated, so they produce (supply) goods or services that consumers will buy (demand). One of the first decisions that a business needs to make is what it is going to produce and whether people will want to buy these products. The business must establish that there is a demand for the goods or services that it is going to produce and the factors that will affect this demand. It needs to do some research into the following:

1. Whether there will be buyers for the products to be produced by the business (market is established).
2. Whether the price which consumers will pay for the goods still allows for an acceptable level of profit for the business.
3. Whether the market can be maintained for an acceptable period of time.
4. How the business will manage a particular level of competition and what strategies it will need to cope with it.
5. How supply of materials for production or goods for resale can be maintained for a period of time.
6. Whether the location of the business is suitable to attract customers, accessible for delivery and easily identifiable.

Time taken to conduct good research will help to avoid failure of a business.

Factor mix

Different producers use a different mix of resources (factors of production) in their production of goods or services. The business owner or manager must decide on the best combination that will result in the most profitable outcome for the business. Should the business use more labour (**labour intensive**) or use fewer workers and more machinery (**capital intensive**)?

The factors of production must also be used efficiently. For example, machinery that is used for production must be suited to the type of production required and be maintained to a suitable standard. Maintenance of machinery is an expense that is sometimes ignored by businesses and can be very costly on them. Costs for repairs and maintenance of machinery will reduce profits and must therefore be planned for by a good manager.

How much should be produced?

The amount to be produced will depend on how much can be sold to consumers. If too much is produced, then the goods which are not sold will need to be stored (another cost) and if the goods are perishable or go out of fashion quickly, then the resources that have been invested in the production process have been wasted. This reduces profits.

A large organisation may also consider subdividing the production process and include techniques such as **division of labour**. The division of labour technique involves breaking the production process into parts and then allocating these to different groups of workers. For example, when producing a car, one group of workers will focus solely on fitting the seats in the car while one group will work on fitting the doors. This technique is used in large organisations such as car production factories in developed countries such as Japan and Australia. Yazaki, a car component production factory in Samoa, uses this technique.

Marketing the goods

Marketing means directing the flow of goods or services from the producer to the consumer. A business may have excellent production and management processes but if people do not know about its goods or services, then they are worthless. A business may do its own marketing or, for some of the bigger organisations, another firm is employed to do this for them. The four major areas that are involved in the marketing of the goods or services are:

- Good or service involved.
- The price.
- Advertising.
- Distribution.

The importance of having a good quality good or service and setting the right price is considered thoroughly by decision-makers in a business. Consumers will not purchase a good or services which are of poor quality and/or too expensive. Managers will ensure that the price is set at a level whereby sales are maximised for an acceptable profit margin.

However, the factors of advertising and distribution can also affect the survival of a business. These factors are not considered often enough. In these cases management focuses on getting the price below that of their competitors, thinking that this will help to sell more goods. Other non-price factors can have a big effect. These may include good customer services, with friendly and helpful staff who know about the products or services sold by the business, attractive and good packaging and presentation of goods or services backed by after-sales service or product warrantee.

Advertising

Types of advertising used in Samoa include:

- Word of mouth.
- Radio.
- Newspaper.
- Television.
- Sponsorship.
- Roadside signs.

To be effective, advertising must target the audience that is most likely to buy the product, be eye-catching and appealing, be informative and memorable.

Distribution

Distribution of goods is important to the livelihood of a business. It includes the delivery of the products to the consumer and how the goods or services will be sold. In some cases the product is sold directly from the producer to the consumer. In other cases middle people are used, where the goods are delivered to different retailers or wholesalers who then sell the goods to the public. Samoa Breweries who produce Vailima products is an example of a business who sell their products to retailers to sell onto the public.

In Samoa, where most of the production is completed off-shore, businesses or retailers buy in goods produced by others and then sell them to the public. In these situations, retailers must manage shipping schedules carefully so that goods are available as required by consumers. If there is a shortage and supply is reduced, it can be very expensive to air-freight goods into Samoa.

Whichever method of distribution is used it is vital for the survival of the business that it keeps customers satisfied by having a regular uninterrupted supply of goods.

Activity 2**Advertising And Marketing**

- Copy and complete the following tasks in your exercise book.
1. Which would be the best place to locate the following businesses enterprises in Samoa? Give a reason for each answer.
 - a. A petrol station.
 - b. A stall selling fresh barbecue.
 - c. A village store.
 - d. A supermarket.
 - e. A car rental business.
 2. Give reasons why a business should be market-orientated.
 3. “Medium-sized supermarkets have been set up in other parts of Upolu and Savai’i to compete with similar kinds of businesses in the main centres of Samoa, Apia and Salelologa.” Discuss this statement, describing the factors which would have been considered by business owners when making the decision to open a supermarket in competition to those that exist in the main centres of Samoa.
 4. Choose one of the following types of advertising and describe how it is used to sell a product – newspaper, radio, television or roadside sign: *e.g. BOC advertises its products in the Samoa Observer newspaper by listing the locations of its refilling stations and agents in Upolu and Savai’i where customers can swap bottles of gas.* The advertisement has a bold border with a scissors shape to encourage people to cut the advertisement out and keep it to refer to as necessary.

Management structures

When the business is a sole trader, the owner makes all the management decisions. This means that the owner decides how the resources are to be used to produce the goods or services of the business. Usually responsibility is not delegated to other employees. The same situation occurs for a partnership. The partners make joint management decisions. When control over management decisions is made by the owner or partners of a business this is referred to as **centralised management control**. This results in a flat organisational structure, whereby everyone reports to the general manager who is the owner in the case of the sole trader and a partner in the case of a partnership:

Centralised business structure

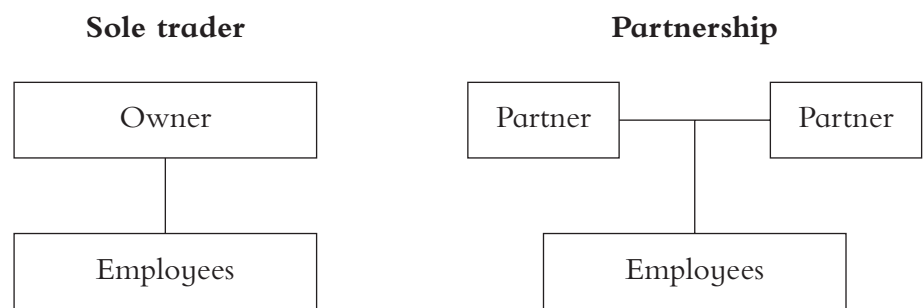


Figure 2.1
Centralised business structure.

In a large company, the shareholders elect Directors who make decisions which are delegated by them. A General Manager is put in charge of daily operations, though decisions may be delegated to other managers, depending on the size of the company. For a smaller company, usually a shareholder is elected to manage the business. This manager is responsible to the shareholders.

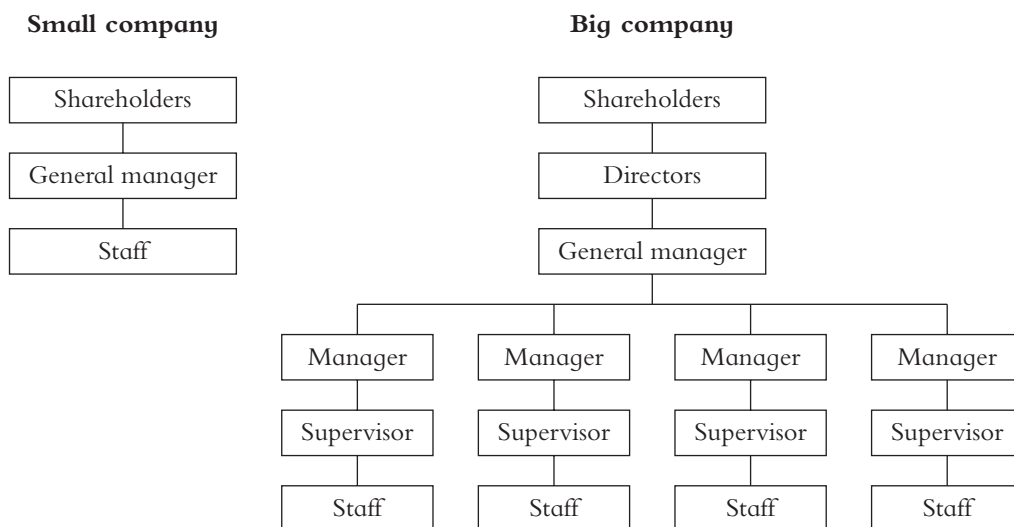


Figure 2.2
Company structure.

When decision-making is delegated to other managers down a chain of command, this is known as **decentralised management control**. This type of control is used for larger firms where it is too difficult for one person to be in control of all that goes on. The advantage of this type of management structure is that it allows for specialisation of skills, that is, those people with the necessary skills are employed to manage the areas they have expertise in. Responsibility is delegated. The disadvantage is that the owners of the business have to let go of the control of making all the operational decisions and trust that the people employed to do this work have the required skills and knowledge.

Activity 3**Different Types Of Business**

- Copy and complete the following tasks in your exercise book.
- 1. Draw a pie graph using the information given in the table below that shows the results of a survey of 50 businesses of the main advantages of forming a sole trader.

Advantages of forming a sole trader business	
	No. of businesses
Unlimited liability applies whereby the owner keeps all the profit	25
The owner makes all the decisions about the operations of the business	15
Other	10

2. Refer to the following Notice of Annual General Meeting published in a newspaper when answering the questions that follow:

Vailima

SAMOA BREWERIES LTD

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 25th Annual General Meeting of the members of Samoa Breweries Ltd will be held on Wednesday, 9th October, 2002 at 3.30pm in the Conference room of Samoa Breweries Ltd, Vaitele.

ORDINARY BUSINESS:

1. To confirm and adopt the Minutes of the 24th Annual General Meeting held on 9th October 2001.
2. To receive and consider the Chairman's Report for the twelve months ended 30th June 2002.
3. To receive and consider the Company's Accounts in respect of the twelve months ended 30th June 2002 together with the reports of the Director's and Auditors thereon.
4. To appoint Directors in accordance with the Articles of Association of the Company.
5. To appoint Auditors for the 2003 Financial Year at a fee to be determined by the Board of Directors.
6. To transact any other business which may be brought forward in accordance with the Company's Articles of Association.

By order of the Board

Fomai Lei Sam
Company Secretary

PROXIES

1. A member who is unable to attend the meeting is entitled to appoint a proxy to attend the meeting and vote on his behalf. The proxy need not be a member of the company.
2. The proxy must reach the registered office of the company no later than 48 hours before the time the meeting is held.

- a. What type of business organisation is holding this meeting — sole trader, partnership or company?
- b. Give two reasons for your answer above.
- c. To whom would invitations to the meeting be sent?
- d. Briefly explain the meaning of the following terms used in the advertisement:
 - Auditors.
 - Board of directors.
 - Articles of association.
 - Proxy.

(You may need to look back to Unit 1.)

3. Simi Bakeries Ltd, situated opposite Apia Park along the main road from Apia has been operating for over thirty years. It is the only bakery on the east side of Apia and it is still owned and controlled by descendants of the founder, Simi Ah Kee. The grandchildren of the founder are still active in the business and have opened other smaller branches in other parts of Upolu and one in Savai'i. As directors, they still promote the personal touch on which the success of the business has been built. A family member manages each of the branches.
-
- a. What is the most likely form of business organisation described in the extract given above?
 - b. Give the reasons for your choice of answer in (a).
 - c. List the factors that have helped Simi Bakeries Ltd to remain successful for a long period of time.
 - d. State **two** advantages of Simi Bakeries Ltd remaining a family concern rather than being a sole trader type business.
 - e. What type of decisions would the family have had to make before it decided to open branches in other parts of Samoa?

Activity 4**Investigation**

Working in pairs, select a business close to your school or to where you live to carry out an investigation of its ownership and management structure. You will need to do some preliminary work before you carry out the field-work and interview the manager or owner of the business.

By the end of the investigation, you are required to produce a report which shows the ownership structure and management structure of the business. Your report should also give a description of the business, how long it has been operating and the main type of business carried out, *e.g. Retail store selling clothes.*

■ Use the following task list to help you prepare for the investigation:

1. Decide on the business to use in your investigation.
2. Prepare a statement to introduce yourselves and to gain permission from the owner for an interview:

e.g. Talofa lava, my name is Sene and I am a year 11 student at Faleata Secondary School. My Business Studies class is studying business structures and management systems. My partner and I would like to talk with you about how your business operates and, with your permission, use the information gained at the interview to complete a report of our work. We will show you a copy of the report before we hand it to our teacher, so that if there is any part you would like us not to use we will not include it. The interview will only take about 10 minutes. We are carrying out this work so that we can understand business operations better.

3. Contact the business and seek an interview time with the manager or owner of the business. If you are finding it difficult to make contact by telephone, you may have to visit the business. Take along a letter from your teacher, written on school letterhead to explain your project.
4. Prepare questions to ask at the interview, keeping in mind what you are required to include in your report about the business. Remember that the interview should only take 10 minutes. You do not want to waste the owner's time.
5. Decide on the layout of your report. You should not just focus on information but also the presentation. Complete the interview and report, and present it for class discussion.

Unit 3: BUSINESS OPERATIONS IN THE MARKET PLACE

Unit objectives

This unit of work relates to the ‘Producers’ Decisions’ strand of the Business Studies Curriculum. From their study of this unit, students will understand the concepts which relate to making economic choices. Students will investigate and develop their skills and understanding of how businesses operate in the market place when they:

- Describe the characteristics of primary, secondary and tertiary sectors.
- Identify aspects of raw materials supply and production that businesses in Samoa need to investigate prior to making a decision to produce goods.

Introduction

Businesses do not operate in a vacuum. They are not independent, as they rely on consumers to buy their products as well as on other businesses to provide goods or services that they use in their production process. They interact with each other and are interdependent.

Resources (factors of production)

Resources that are used to produce goods and services are called **factors of production**. This was covered in detail in Year 10, but as it is relevant to this next section, we will revise it here.

Factors of production are economic inputs required for the production process. There are four factors of production and each one has a **factor reward** or what is earned by the person who owns or contributes the resource or factor of production. When a person works for someone else, that person expects to be rewarded or paid. People who own **labour** earn **wages**. If you own **land (or natural resources)** and others use it, they pay you **rent**. Owners of **capital** earn **interest** and the **entrepreneur** earns **profit**.

Resource (factor of production)	Definition and examples	Reward for owning the factor (or payment for use)
Land or natural resources	Resources provided by nature — minerals, trees, soil, cattle. Renewable resources can regenerate within a reasonable period of time: <i>e.g. Plantation trees, solar power, fish and water.</i> Non-renewable resources are natural resources limited in supply that cannot be replaced within a reasonable period of time: <i>e.g. Minerals, oil, native timber.</i>	Rent is paid to owners in exchange for the use of their natural resources.
Capital goods (or producer goods)	Any man-made goods that are used to produce other goods or services — tools, equipment, buildings, components, machinery.	Individuals are paid interest on their savings which producers borrow in the financial sector to buy capital goods.
Entrepreneurs	People who have the ability or skill and are willing to take risks to organise other factors of production — business owners, directors (who are usually shareholders).	Entrepreneurs are paid profits as a reward for their entrepreneurship.
Labour or Human resources	Human work and effort used in the production process — shop assistant, supervisor, machinist.	Workers are paid wages in exchange for the use of their labour.

Sectors Of The Economy

The economy of Samoa is rather different from that of New Zealand. The economy of Samoa has traditionally been dependent on development aid, family remittances from overseas and agricultural exports. The country is exposed to devastating storms. Agriculture employs two-thirds of the labour force, and provides about 90% of exports, featuring coconut cream, coconut oil and copra. The manufacturing sector mainly processes agricultural products. Tourism is an expanding sector, accounting for 15% of the **Gross Domestic Product** (GDP) which is the total value of goods produced and services provided in a country in one year. About 85 000 tourists visited Samoa in 2000.

Every economy has three major sectors: primary, secondary and tertiary.

Primary sector

The Primary Sector includes producers involved in the extraction or harvesting of natural resources. Examples of primary sector producers include farming, mining of minerals, growing fruit, vegetables or trees and fishing. Some of these goods are ready for consumption but most need further processing. In primary sector industries, businesses focus on how they can improve the yield from the resources they use. For example, the fisherman will invest money on buying a fishing boat and fitting it with the necessary equipment required for catching the fish and storing it so it does not spoil. The fisherman will also need to employ workers to help him on the boat. He will want to increase his catch so that he is able to cover the costs of the new capital (boat and equipment) and wages for workers and still make a profit for himself and his efforts.

Secondary sector

The secondary sector includes producers involved in transforming or processing raw materials into finished goods for consumers or intermediate products that other producers will process further. These producers are sometimes called **manufacturers**. Examples of producers in this sector include a joinery workshop which makes furniture, car manufacturers, a coconut oil factory, a brewery which produces beer or other beverages and a chocolate-making factory. All these businesses combine inputs (raw materials) so that they are transformed into an end product: *e.g. Combine ingredients like cocoa, butter, sugar, water and other inputs to make chocolate*. People have been making things for a long time, but in more recent times, technology has assisted to reduce time required to produce goods, reduce waste of raw materials and increase production.

Tertiary sector

Producers in the tertiary sector are involved in providing services. A service can be described as the performance of work for other people or organisations. There are two types of service providers:

Those services which satisfy the needs and wants of consumers: *e.g. Haircuts, restaurants, bus rides, doctors, retail stores and village stores*.

The other types of services are those that support the production process. These are called **service industries** and they serve a vital role by providing services such as transport, finance, communication, marketing and accounting skills for producers to use.

Case Study**A Bakery**

Simi Bakery Ltd orders the ingredients required to produce its goods from Fiji, Australia and New Zealand. It relies on a regular shipping schedule for these raw materials. Tupe Simi has arranged for Apia Trucking to pick up the containers from the wharf and deliver them to the main branch. Orders for the materials are made by Tupe directly to the supplier by email (electronic mail through the business' computer) or facsimile (fax). Once the shipment is received by Tupe, she checks it against the order form, shipping form and invoice sent by the supplier. She pays the supplier by transferring money from the business' bank account into the supplier's bank account. Tupe can do this at the bank or sometimes she gets a bank draft and sends it by post to the supplier. Tupe keeps an eye on the cost of the raw materials and checks on the internet for the best prices offered by other suppliers. The business receives a catalogue each month from the Australasian and Pacific Manufacturers Association which has the name and contact details of all suppliers in the baking industry.

Activity 1**Businesses And Industries**

- Copy and complete the following tasks in your exercise book.
- 1. List two examples of primary sector industry.
- 2. What is the difference between a business and an industry? Explain your answer using the fishing industry as an example.
- 3. Explain the difference between a renewable and non-renewable resource. Give two examples of each.
- 4. Describe the service industries used by Simi Bakery Ltd in the case study above. Example:

Simi Bakery ships in its raw materials from _____ and then transports its goods using _____. This is an example of a business using transport services.

- 5. What is the difference between a primary sector producer and a secondary sector producer? Give examples for both types of producers in Samoa.

6. From 1900 to 2000 New Zealand’s productive services have changed significantly. See the diagrams below. Comment on what has changed and give reasons why you think these changes have occurred.



Figure 3.1
Employment sectors in New Zealand.

7. Contact the Department of Trade, Commerce and Industry to find out what percentage of the producers are in the different sectors for Samoa. How does this compare to New Zealand?

The following is an extract from the **Economic Statement to Support the 2002/3 Budget** of the Government of Samoa, May 2002:

Primary Sector: Agriculture and Fisheries

In current prices, the agriculture industry accounted for 5.9% of total GDP, down from 7.6% in 2000. In 1997, agriculture accounted for 12.3% of total GDP. The decline reflects the residual impact of the taro leaf blight and African snail on the main export crop taro as well as other pests that caused extensive damage to fruits and vegetables. The lower world price for copra, the closing down of overseas markets for kava and other agricultural produce also had a discouraging effect on farmers. Both monetary and non-monetary agriculture showed declines in 2001. Non-monetary agriculture however recorded an increase in the share of total agricultural output from 73.9% to 76.3%.

The fishing industry accounted for 8.3% of total GDP in 2001 and contributed 0.5% percentage points to real GDP growth for the year. Fishing Statistics provided by the Ministry indicate that the industry increased production in real terms by 7.0% following no growth in 2000. Fish continues to be the main export commodity for Samoa...

Activity 2**The Primary Sector In Samoa**

- Copy and complete the following tasks in your exercise book. Read the extract from the Economic Statement to Support the 2002/3 Budget from the Government of Samoa and respond to the following questions.
1. What are the main industries in the Primary Sector of producers in Samoa as noted in the extract.
 2. Copy and complete the following statement:
 The agriculture industry has decreased as a percentage of GDP from _____% in 1997 to _____% in 2000 to _____% in 2001. This decline is most probably due to the ongoing effect of the _____ and the African snail on the main export crop _____ as well as other pests which have also caused damage to _____ and _____. Other factors which have also effected the decline in the agriculture industry are the lower world price of _____, and the closing down of overseas markets for _____ and other agricultural products.
 3. What is Samoa's main export commodity in the primary sector?

Distribution or production chains

The flow of goods to consumers is called the **chain of production** or distribution. The chain of production identifies the different steps a finished product goes through before it reaches the consumer. The number of steps required depends on the type of goods that is produced as some do not need to go through all the steps. Some consumers will go directly to the manufacturer or wholesaler rather than buy goods from a retailer. This decreases the price of the goods. Sometimes, a primary producer will sell directly to the retailer so that the goods are cheaper for the consumer and this will increase sales. The businesses between the producer and the consumer are sometimes referred to as the **middle people** or middle man. Middle people offer a service as they assist to make the exchange of goods and services between the producer and consumer more efficient. Middle people charge for their services as they must make a profit and all of this adds to the price of the final product that is sold to the consumer.

The diagram below gives an example of the breakdown of costs for a television set that is imported to Samoa (estimated costs):

Breakdown of costs	Explanation	Total cost (SAT\$)
Television cost	Manufactured in Taiwan (SAT \$900.00).	\$900.00
Delivery charges	\$100 per television set to be shipped to Samoa including handling charges.	<u>\$100.00</u>
Landed cost	The price of the television set entering Samoa.	\$1000.00
Tariffs and taxes	Government tax on imported televisions (e.g. 30%).	<u>\$300.00</u>
Cost to the importer	The business which brings in bulk supplies of television sets.	\$1300.00
Importer's margin	Landed cost + tariffs and tax + importer's mark-up (say 20%).	<u>\$260.00</u>
Cost to the retailer	The business which sells direct to consumers	\$1560.00
Retail margin	Into store cost + retailer's mark-up (10%)	<u>\$156.00</u>
Retail before tax	All costs, margins, tariffs and taxes to the shop floor	\$1716.00
VAGST	Value Added Goods and Services Tax (12.5%)	<u>\$214.50</u>
Total cost to customer		\$ 1930.50

In the table above, the step that involves the wholesaler is missing. In Samoa, the wholesaler is not as prominent as it is in other more developed economies. In the case of goods that are imported for resale to consumers, importers sell directly to retailers. This reduces the cost to the consumer. You can see from the example how a television set that has a production cost of SAT\$900.00, once all the middle people costs are added on, is then sold to the consumer for \$1930.50. The **mark-up** or **profit margin** is the percentage of profit that the seller adds onto the goods to get the price at which it is sold for.

$$\text{Price} = \text{cost to make product} + \text{mark-up}$$

Activity 3**Profit Margins**

- Copy and complete the following tasks in your exercise book.
1. Use the table on the previous page which shows the breakdown of costs of a television set imported to Samoa to answer the following questions:
 - a. The cost of producing the television set in Taiwan is \$900.00. What types of costs would this cover? *e.g. The cost of electronic wiring.*
 - b. Complete the following table:

Explanation	Cost
Production cost of television	\$900.00
Delivery charges	
Samoa Government tariffs and taxes	
Importer's mark-up	
Retailer's mark-up	
VAGST (paid to government dept: IRD)	
Total cost to the customer	\$1930.50

- c. How much does the Government of Samoa collect in total after the sale of one television set?
- d. What percentage of the total cost of the television set is paid in taxes or tariffs?
- e. What percentage of the total cost of the television set is paid as mark-up to middle people (excluding taxes)?

Factors To Consider Prior To Production

Before setting up a business to sell or make goods or services, an entrepreneur should investigate:

- **The market** — do consumers actually want this good or service? At what price are they prepared to buy this good or service?
- **The availability of supplies/suppliers** — If raw materials are required for production, how reliable is the source of supply from the supplier? Are there other suppliers available should the preferred supplier go bankrupt or become unable to fulfil an order? What are the terms of purchase? What are the minimum and maximum quantities that can be supplied and shipped at any one time? Can the business afford these terms of purchase?
- **Distribution** — can the goods be shipped or freighted regularly to meet the demand or production process? Can the business transport the goods to the retailers on time?
- **Finances** — how will the business pay for the cost of raw materials and related costs and other production costs? Is the bank able to offer services which allow for international transfers of money and payments to other local businesses? What are the lending terms that the bank is willing to offer — can the business afford it? What are the insurance costs — for the business, for the raw materials while they are in transit?
- **The production process** — what factor mix is to be used for production? Will it be labour intensive or capital intensive? Can the business afford the machinery or equipment required for production? What processes will be put in place to ensure that the quality of goods is at the required standard?
- **Storage** — what will happen to the finished products as they are completed? Are the goods perishable and so in need of refrigerated storage? Is storage space available and how much will it cost? Will stored stock go out of date or fashion quickly?

These are some of the important factors that need to be considered by producers when deciding on what goods they will produce. If the business is a retailer that imports goods or buys finished goods to sell to consumers, most of these factors will still need to be considered. Most producers in Samoa rely heavily on regular shipping and airline schedules. The costs of getting the goods into the producer (freight inwards) and getting the goods from the producers to retailers (freight outwards) is very important and producers must be careful to manage this cost.

Activity 4**Business Sectors**

- Copy and complete the following in your exercise book.
1. Define the terms — *Natural resource*, *Capital resource* and *Entrepreneur*.
 2. Employment by sectors in the New Zealand economy as a percentage:

Sector	1971	1995
Primary	12.2	10.0
Secondary	35.1	24.2
Tertiary	52.7	65.8

- a. Draw a pie graph to show employment by sectors in the New Zealand economy in 1995.
 - b. Identify two trends in the table above related to employment in the New Zealand economy.
3. Explain what is meant by:
 - Primary sector.
 - Secondary sector.
 - Tertiary sector.
 4. Classify the following activities into primary, secondary or tertiary sectors. Copy and complete the box:

Activity	Sector
Coconut cream processing	
Deep sea fishing	
Samoa Breweries	
Dentist	
Lei Yam Marketing	
Transport	
Taro plantation	
Car component manufacturers	
Pasefika Financing	
Ana's Tours	
Furniture maker	

5. From the terms below, identify the resources that would be used directly in the fishing industry. Copy the table into your exercise book. Classify these resources into the categories in the table below. You will not use all the resources listed.

cows	fishing boats	baby
freezers	managers	nets
chainsaw	bait	sea
seeds	fishing boat owner	shop assistant

Human	Natural	Capital

6. In your exercise book state whether a village store is an example of a primary, secondary or tertiary industry. Explain your answer.

A village store is a _____ industry.

7. Copy the table into your exercise book then write a definition of the economic terms in the table and choose from the list below the table the best example for each economic term.

Economic term	Definition as used in economics	Example
Entrepreneur		
Labour		
Rent		
Profit		
Natural resource		
Interest		
Capital		
Wages		

Income earned by the owner of taro plantation	A forest
Payment for use of factory	Supervisor's earnings
Owner/manager of import company	Shop assistant
Income from an investment in bank	Money

8. Identify each of the following from the pictures below:

- One capital resource.
- One tertiary resource.
- One natural resource.
- One human resource.

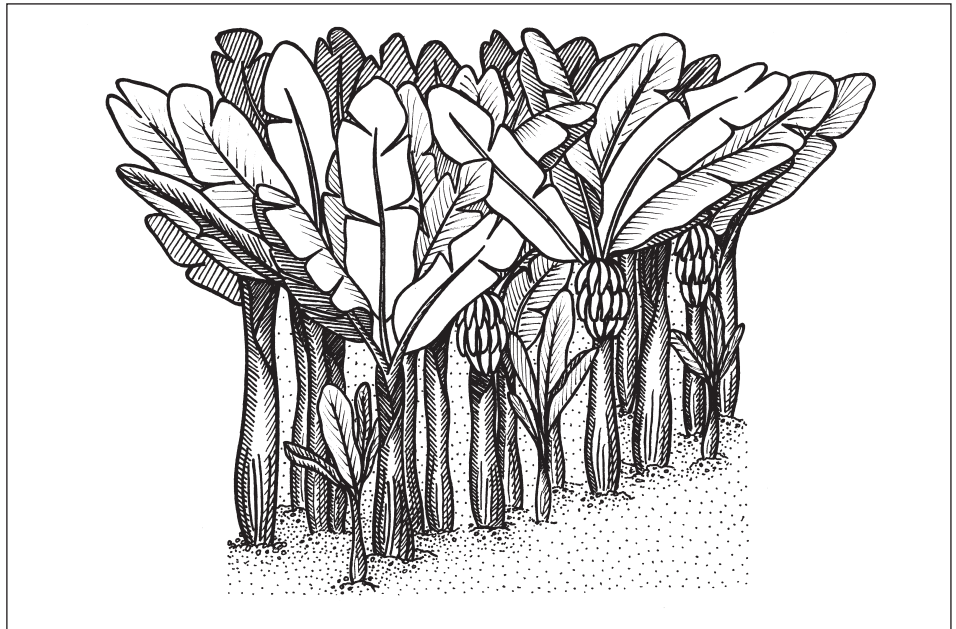


Figure 3.2

A banana plantation — Timu's Plantations.

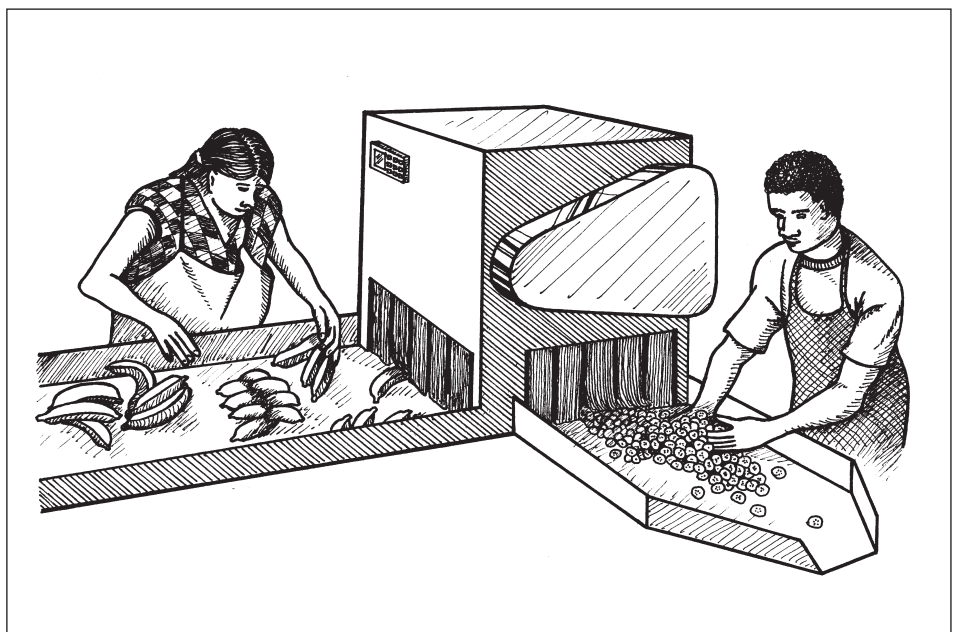


Figure 3.3

A banana processing factory — Banana Products Ltd.

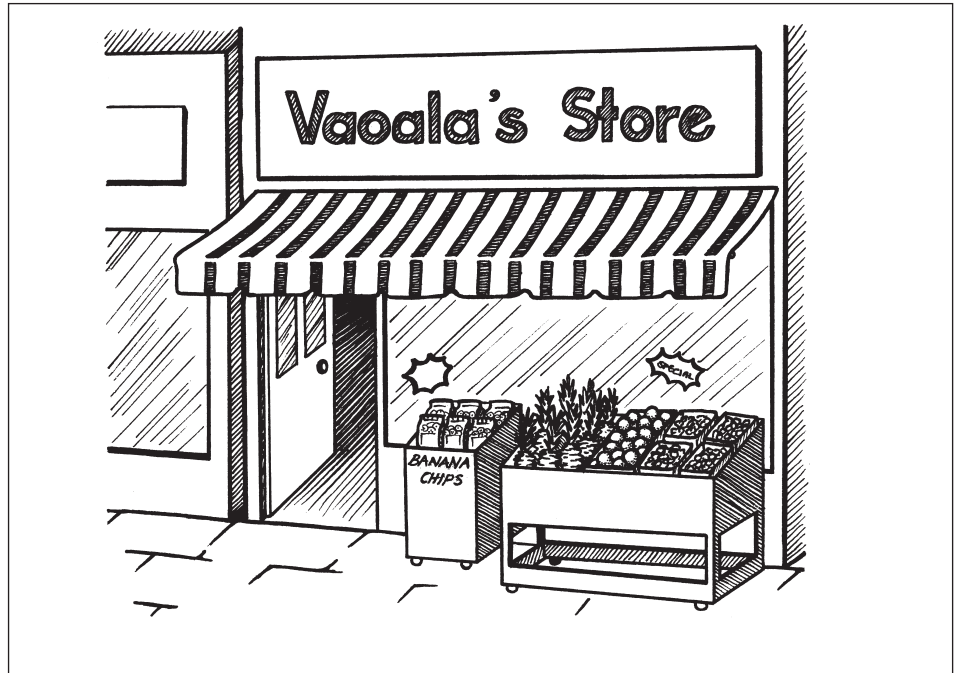


Figure 3.4
Selling products made from a renewable resource.

9. Name the sector of the economy that each of these belong to:
Banana Products Ltd; Timu's Plantations; and Vaoala's Store.
10. Explain why bananas are considered a renewable resource.

Unit 4: SUPPLY OF GOODS AND SERVICES

Unit objectives

This unit of work relates to the 'Producers' Decisions' strand of the Business Studies Curriculum statement. From their study of this unit, students will understand the concepts which relate to making economic decisions. Students will investigate and develop their skills and understanding of supply of goods and services for individual producers when they:

- Identify causes (determinants of supply and other influences) that affect supply of goods and services.
- Define the law of supply.
- Construct a supply schedule and graph a supply curve for an individual firm.

Introduction

Producers must make decisions on the amount of goods or services they will produce. The quantity they produce will depend on their willingness and ability to produce. At a high price, firms will increase their supply. If the price is too low, they will reduce supply and look to produce something more profitable because it is the firm's goal to maximise its profits.

Supply

Supply is defined as the amount of good or service that a producer is willing to produce at various prices at a certain time. The main factor that affects supply is the price. The focus for producers when looking at supply is price. It is important at this time to distinguish between price and cost.

Price is the amount of money that producers receive when they sell their goods or provide a service. It is what the consumer or purchaser is willing to pay to own the good or receive the service.

Cost is the amount paid by the producer or seller to have the product ready to sell to the consumer or its customers. There are two types of costs involved:

- **Accounting cost** — which is the dollar cost related to the production or acquisition of the product. These costs include materials, rent, power, advertising and wages.
- **Opportunity cost** — which is the cost of the next best alternative.

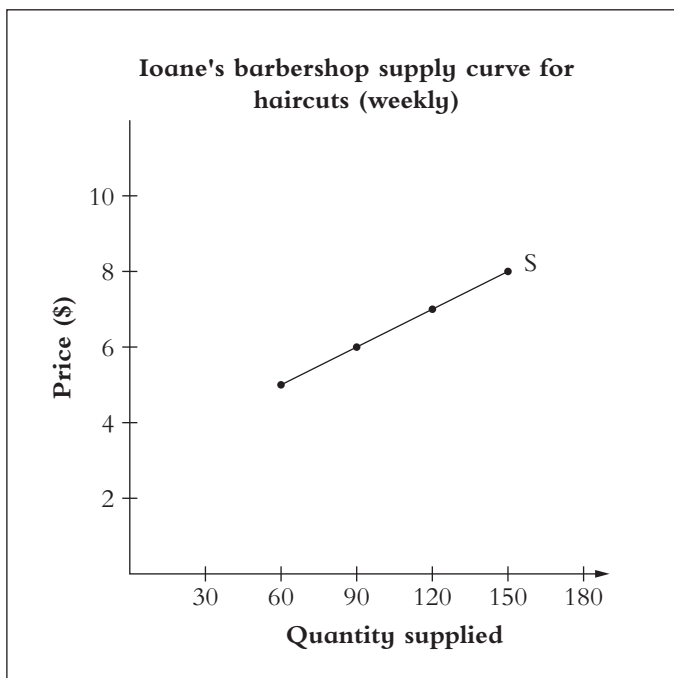
In economics these two different types of costs are combined to show give the **economic cost** of production (covered in greater depth in Unit 5).

Supply is the quantity of a good that a producer is willing and able to produce at a range of prices over a period of time. A **supply schedule** is a table that is constructed to show the quantity of a good that can be supplied at different prices. The information given on a supply schedule can be used to graph a **supply curve**. These are two useful tools that can be used to assist producers in making the decision on the amount of goods to produce and the price at which to sell the goods. The supply curve can also be used to predict what would happen when the price of goods is changed. Below is a full example of a supply schedule and supply curve for “Ioane’s Barbershop”.

Ioane’s supply schedule for haircuts (weekly)	
Price (\$)	Quantity (haircuts)
5.00	60
6.00	90
7.00	120
8.00	150

Supply schedule:

- Should have a title showing who, what and when.
- Price is always in the left-hand column and is shown as dollars or cents, and should be listed from the lowest to highest.
- Quantity is in the right-hand column, showing the amount of the item being supplied (show units being used).



Supply curve:

- Should have a title showing who, what and when.
- The price is always drawn on the Y or vertical axis and it must be labelled.
- Quantity is always drawn on the X or horizontal axis and it must be labelled.
- The curve should always be labelled.
- Use an even scale.
- Do not take the curve beyond the points for which you have plotted from the information in the supply schedule.

The law of supply

We can see from the example given that a **decrease in the price leads to decrease in the quantity supplied** *ceteris paribus* (everything else other than price stays the same). This is the Law of Supply. You can put this around the other way — **an increase in the price will lead to an increase in the quantity supplied**, *ceteris paribus*. If a product can be sold at a higher price there is a greater chance that it is earning more profit. Producers will put their resources into other things if the price at which they have to sell goods is too low. The price is what will influence them to change their supply quantity and sometimes may even force producers to stop producing a product.

There is a positive relationship between the price and quantity supplied. As the price goes up, so does the quantity supplied.

Activity 1**Supply Curves**

- Copy and complete the following in your exercise book.

1. Give definitions for the following terms:

supply price *ceteris paribus* law of supply
 accounting cost supply schedule opportunity cost

2. Explain the difference between accounting cost and economic cost.
 3. Construct a supply schedule and curve in your exercise book from the following information:

Siaosi's Pizzas sells takeaway pizzas from its Apia shop. As the owner, Siaosi is willing to supply 200 pizzas if he could sell them at \$10 each. However, if the price increased to \$15 each, then he would supply 300 pizzas. At a price of \$20, Siaosi would supply 450 pizzas. At a price of \$18, how many pizzas would Siaosi be willing to supply?

4. Tili recently imported CDs called *Pese mo Oe* for \$20. She feels that if she could sell them at \$60 she would import 400 copies. If she only charges \$30 then it would be worth buying in 100 copies, but at \$40 she would be prepared to sell 200 and at \$50 she would be interested in selling 300 copies.

In your exercise book construct a supply schedule for Tili's *Pese mo Oe*:

Price \$	
30	
40	
50	
60	

Determinants Or Influences Of Supply

Determinants of supply are those factors that influence the amount or quantity of a good or service that can be supplied at each price. The factors that can influence supply are:

- Competition from other producers who can supply the same goods or services. The price of the competitor's product affects supply.
- Costs of production such as raw materials, labour and capital costs affect the quantity supplied at each price. Other costs which also influence supply and are outside the control of the producer are such things as government regulations, taxes and tariffs and freight costs.
- Technological changes are having a greater influence on producers. The methods of production are influenced by technology which affects the quantity supplied by the producer.
- Personal preferences by the producer will also influence the quantity supplied. The producer may prefer to produce a particular good or service and will find it difficult to change to another product.

The quantity supplied at each price could increase or decrease depending on the influence of these factors. For example, Kuki's Juice produces guava, mango and orange juice in a factory in Vaialele. It has worked out that it can supply two litre bottles of juice at the following prices:

Kuki's Juice supply curve for two litre bottles of juice (weekly)		
Price (\$)	Quantity	Quantity (change in supply)
5.00	300	350
6.00	350	450
7.00	450	550
8.00	600	700

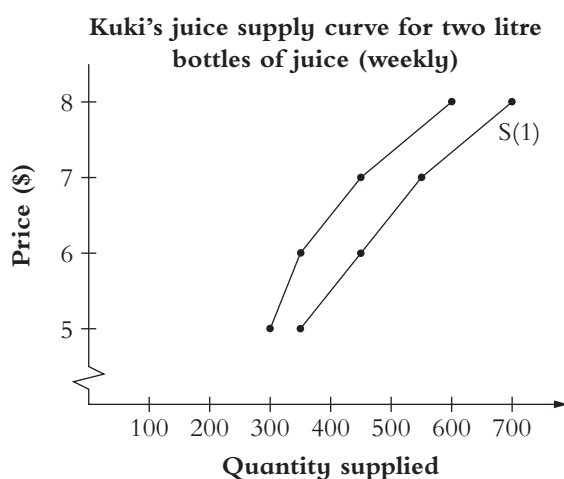


Figure 4.1
Weekly supply curve.

Kuki's Juice could supply more two litre bottles of juice if:

- The cost of the ingredients required to make the juice (fruit, juice concentrate, sugar) decreased.
- The cost of producing the juice (wage rates for the workers, equipment required for processing) decreased.
- A faster and more efficient way of producing the juice is developed.
- The price of other similar drinks (sodas, Cola-flavoured soft drinks, niu) increased making Kuki's juices more competitive on the market.

If any one of the above occurs Kuki is able to supply more two litre bottles of juice at each price. The effect of this is shown in the second quantity column and the new supply curve is shown on the graph as S(1). From the graph it is clear that more bottles of juice can be supplied at each price. At a price of \$7.00, Kuki originally was willing to supply 450 two litre bottles. The new supply curve shows that at \$7.00 Kuki can now supply 550 two litre bottles of juice.

There are other influences which can limit or restrict supply: e.g. *government regulations, taxes, tariffs (tax on imports), imposed quota (restriction of imports), removal of government subsidy, trade barriers and restrictions. The government may also impose stricter regulations about the use of some materials because it has a negative effect on the environment.*

Activity 2 Determinants Of Supply

Copy and complete the following in your exercise book.

1. a. Complete the supply curve for taro on 5 October and 12 October 2002 using the supply schedule below:

Supply schedule of taro one week and one day before White Sunday 2002		
Price (\$)	Quantity supplied 5 October 2002	Quantity supplied 12 October 2002
10	200	100
15	250	150
20	300	200
30	400	300

- b. Why has the quantity of taro supplied decreased from 5 October to 12 October?
- c. Why are consumers ready to pay more for taro on 12 October 2002?
- d. Name two other times in the year that you would expect the price of taro to show the same type of increase.
- e. What would you expect the price of taro to be on 19 October 2002? Explain your answer.

2. The graphs below show the effect of a decrease or increase in supply. Match the situation with the appropriate graph below (draw the graphs into your exercise book).

Situation	Graph A or B (or neither)
1. A shift to the left.	
2. A shift to the right.	
3. An increase in supply.	
4. A decrease in supply.	
5. A price change for the product.	
6. The business improves production.	
7. An increase in production costs.	
8. A decrease in production costs.	

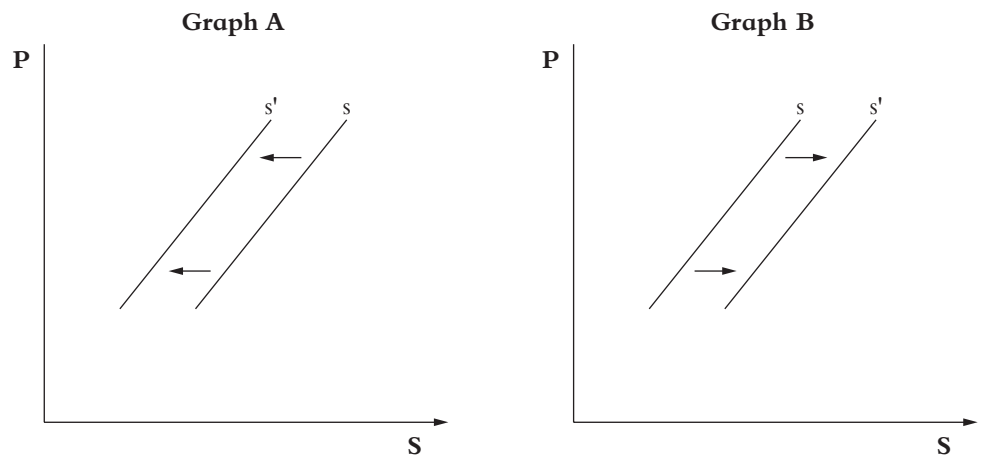


Figure 4.2
 Graphs of increased and decreased supply.

3. Match the situation with the appropriate graph below (draw the table and graphs into your exercise book)

Situation	Graph A or B or neither
1. Product has increased in price	
2. Product has decreased in price	
3. Quantity supplied has increased	
4. Quantity supplied has decreased	
5. Production costs have changed	
6. A shift to the left of the supply graph	

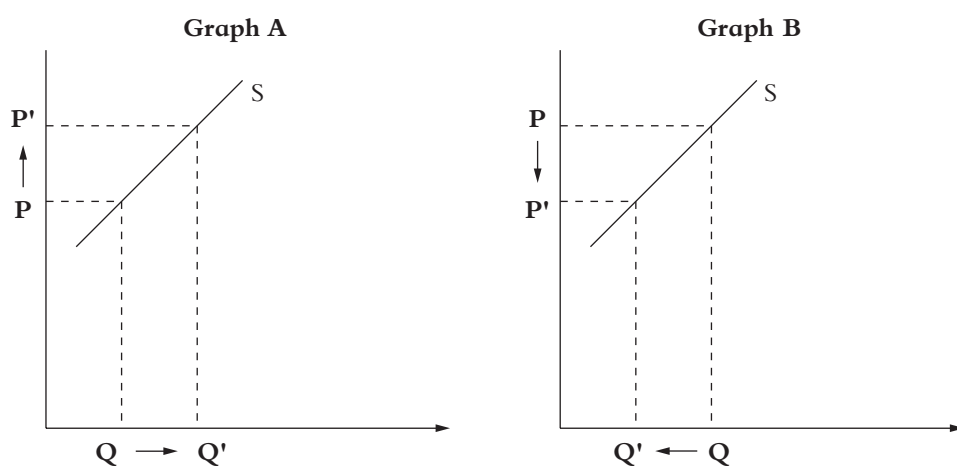
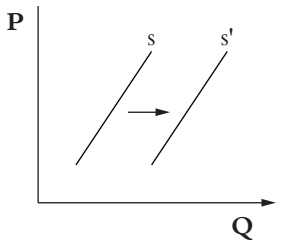
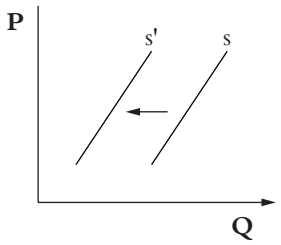
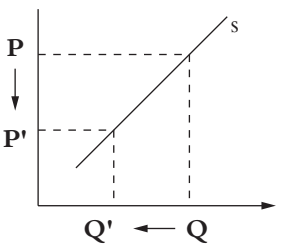
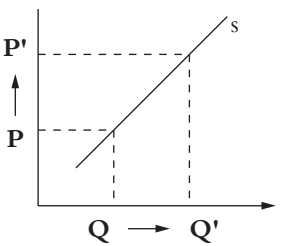


Figure 4.3
Changing the determinants of supply.

4. Complete the following table:

<p>Situation or graph</p>	<p>Movement along the graph or shift to the left or right?</p>	<p>Choose ONE of the following: <input type="checkbox"/> Increase in supply. <input type="checkbox"/> Decrease in supply. <input type="checkbox"/> Increase in quantity supplied. <input type="checkbox"/> Decrease in quantity supplied.</p>
<p>a. Increase in wages to workers increases production costs.</p>		
<p>b. Decrease in price of goods.</p>		
<p>c. Cost of raw materials reduces which decreases production costs.</p>		
<p>d. New technology improves productivity.</p>		
<p>e. </p> <p>The graph shows a coordinate system with a vertical axis labeled 'P' and a horizontal axis labeled 'Q'. Two parallel, upward-sloping lines represent supply curves. The original supply curve is labeled 's' and the new supply curve is labeled 's''. An arrow points from 's' to 's'', indicating a rightward shift.</p>		
<p>f. </p> <p>The graph shows a coordinate system with a vertical axis labeled 'P' and a horizontal axis labeled 'Q'. Two parallel, upward-sloping lines represent supply curves. The original supply curve is labeled 's' and the new supply curve is labeled 's''. An arrow points from 's' to 's'', indicating a leftward shift.</p>		
<p>g. </p> <p>The graph shows a coordinate system with a vertical axis labeled 'P' and a horizontal axis labeled 'Q'. A single upward-sloping supply curve is labeled 's'. Two points are marked on the curve. The first point corresponds to price 'P' and quantity 'Q'. The second point, lower on the curve, corresponds to price 'P'' and quantity 'Q''. A downward arrow on the vertical axis indicates the price change, and a leftward arrow on the horizontal axis indicates the quantity change.</p>		
<p>h. </p> <p>The graph shows a coordinate system with a vertical axis labeled 'P' and a horizontal axis labeled 'Q'. A single upward-sloping supply curve is labeled 's'. Two points are marked on the curve. The first point corresponds to price 'P' and quantity 'Q'. The second point, higher on the curve, corresponds to price 'P'' and quantity 'Q''. An upward arrow on the vertical axis indicates the price change, and a rightward arrow on the horizontal axis indicates the quantity change.</p>		

5. Explain the difference between what causes movement 'along' a supply curve and what causes a 'shift of' a supply curve by completing the gaps in the sentences below:

A movement along the supply curve is caused by a change in the p _____ of the product. If the price increases, so will the q _____ s _____ and the quantity supplied will decrease if the p _____ d _____.

Changes in conditions of s _____ will cause the supply curve to shift. A shift to the left is called a d _____ in s _____, and a supply increase is when the supply curve shifts to the r _____. Shifts of the supply curve are mainly related to the c _____ of production. When these costs increase, supply will d _____ and when costs decrease, supply will i _____.

Unit 5: CONSUMPTION OF GOODS AND SERVICES

Unit objectives

This unit of work relates to the ‘Consumers’ Decisions’ strand of the Business Studies Curriculum statements. From their study of this unit, students will understand the concepts relating to making economic decisions. Students will investigate and develop their skills and understanding of consumption possibilities available when they:

- Recall the steps involved in the decision-making process.
- Recognise and describe the costs related to making a choice (opportunity cost).
- Investigate how government policies effect consumer decisions.

Introduction

In Years 9 and 10, we learned that consumers use goods and services to satisfy their needs and wants. Consumers can either buy these goods or services or use their own time, skills and/or knowledge to meet their needs and wants. However, consumers usually cannot satisfy all their needs and wants because they have limited resources or means available – resources such as time, money, skill and knowledge. Because consumers (and producers) have scarce resources, they must make choices as to how best to use their resources to meet their needs and wants. This unit will review some important economic concepts relevant to consumer decision making and the effect that government policies have on these decisions. It will also investigate in more detail the costs of making particular decisions.

Making Choices

Consumers are always having to decide how to meet their needs and wants with the scarce resources or means that are available to them. Some needs are essential for humans to survive: *e.g. Physical needs such as food, shelter and warmth*. There are also some emotional needs that must be met: *e.g. Love, acceptance, self-esteem and a direction in life*. Wants, as we have learned earlier, are those things that consumers would like to have but most are neither necessary nor required in order to survive. Resources available to consumers are limited or scarce and once all their needs are met they can start to meet their wants. In some cases, consumers will ignore their common-sense and use resources to meet their wants before looking after their needs. An example of this could be when you spend \$20 at 'bingo' instead of paying for the power bill.

Values

Every person has a set of values that determine their actions. Values are the core beliefs and principles that form the basis of our decisions. Values are not tastes or preferences. Values are not what we like or dislike. They are what determine our decisions. Different people have different values. Examples of values include:

- **Honesty** — telling the truth.
- **Integrity** — being trustworthy and reliable.
- **Fair** — being just, not taking advantage of others.
- **Consideration** — respecting the rights and feelings of other people. This includes being polite and kind.

Factors that influence our values include

- The culture and traditions of the group that we belong to. The environment that we are raised in greatly influences the way we think and act. These influences remain with us for a long time as they are taught to us by our parents and we learn them from being around people who practice these values in their traditions. Cultural practices and traditions stay with us for generations as they have been developed over long periods of time and have ensured the survival and the sense of identity of the group.
- The way that we are brought up. While the traditions and practices of our culture can influence a group of people, an individual is also a product of their upbringing. Our parents (and their parents) have an influence on the development of our values. We usually have similar opinions, attitudes, beliefs and values as our parents, simply because they have taught us and influenced the way we think about things.

- Our religious faith also influences our values. This has been very evident in middle Eastern countries as well as with the Jewish people during World War II and with the ongoing violence in Ireland between the Catholics and Protestants. Beliefs and practices of different religions are also very evident in Samoa.
- The media also has an influence on our values. In Samoa, movies, videos and DVDs are readily available. Radio, television, newspapers and magazines are common means of communication. These media influence attitudes and the behaviour of people.

Case Study

A Value Based Decision

Lopeti is completing his foundation year at the National University of Samoa (NUS) and he is trying to decide what he should do the following year. Lopeti has done very well and has been offered a three year scholarship to study for a business degree at the University of South Pacific in Fiji. He has also been offered a position with the Central Bank as an assistant to the Economist. In this position, Lopeti could work his way up the ladder as well as study at NUS. However, Lopeti's father has a very successful business. He has a large taro plantation, the produce of which is exported and sold locally at the market and to other businesses. Lopeti is the only boy, his two sisters are much younger than him and his father has been very ill for the last year.

Lopeti is finding it really hard to decide what he should do next year. His parents are encouraging him to take up the scholarship in Fiji and have told Lopeti that they would pay for his accommodation and other expenses not covered by the scholarship. It would be fun to be away from home though Lopeti is not looking forward to another long period of time with no money and more academic study. He would like to work at the Central Bank, as it would give him some money (and some independence) as well as allow him to still be in Samoa, close to his family. Lopeti is also feeling very responsible about the business that his father has built up through hard work. He is concerned that as his father is ill, the business could very easily fold.

We can identify different value positions (values that Lopeti sees as important) to explain how they might influence Lopeti's decision.

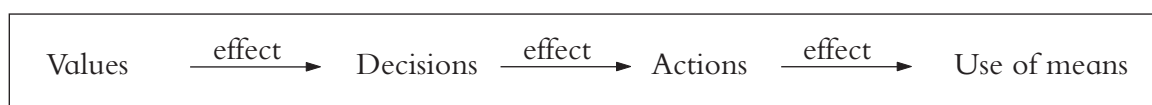
The importance of obeying his parents and doing what they want of him.	The importance of tertiary study and gaining academic qualifications .	The importance of being independent and not being a financial burden to his parents.	The importance of family and making a contribution to maintain or improve their situation.
Lopeti loves his parents and has always taken their advice and he doesn't want to disappoint them. He also feels he has to set an example for his sisters.	An academic qualification will give him more employment opportunities. He may be able to find some part-time work in Fiji to assist with accommodation expenses.	Lopeti would enjoy earning some money of his own and having time out from full-time study. He would still be able to gain an academic qualification from his part-time study.	The family business provides the means for paying all the bills as well as the lifestyle that Lopeti's family enjoys. Maybe Lopeti's uncle will be able to take it over until his father's health improves?

When considering the options he has to choose from, Lopeti will weigh up the pros and cons (advantages and disadvantages) for each. It may be that he will then make a decision that combines some of the options available to him as he has considered the 'full picture'.

Making Decisions

How do values of consumers effect economic activity? What relationship is there between consumer attitudes and behaviour and economics?

As we can see from this case study, Lopeti's values will influence the decision he finally makes. This can be summarised as:



Making a decision can be very difficult as it involves making a choice as to how to best use personal resources and means and in most cases it affects other people. The process of decision-making can be broken into a number of steps that makes it easier to identify the reasons why a particular option was preferred above another.

<p>Step 1 What goal am I trying to achieve?</p>	<p>Lopeti wants to do something useful next year, after he completes his foundation year at NUS.</p>	
<p>Step 2 What could hinder the achievement of this goal?</p>	<ul style="list-style-type: none"> ■ His parents may be unhappy with his decision. ■ There is not enough money for him to finish at USP in Fiji. ■ The job at the Central Bank could end. ■ His father’s health could get worse. 	
<p>Step 3 What are the options available?</p>	<ol style="list-style-type: none"> 1. Attend USP in Fiji to study for a Business degree. 2. Remain in Samoa and take up the job offer at the Central Bank to work as an assistant to the economist. 3. Remain in Samoa and work in the family business. 	
<p>Step 4 What are the advantages and disadvantages of each option? Some of the advantages and disadvantages of the different options will be more important than others, depending on a person’s priorities and values.</p>	<p style="text-align: center;">Pros</p> <p>Option 1 He will gain an academic qualification that will allow him greater career choices in the future; it will make his parents happy and proud; he will enjoy being away from home.</p> <p>Option 2 He will gain skills and income immediately so that he is financially independent and also able to provide financial assistance to his parents; he will still be at home in case his family needs him because of his father’s illness; he may be able to study part-time at NUS and gain an academic qualification.</p> <p>Option 3 He will assist his father to maintain their business at a profitable level; the family’s source of income is maintained; he will learn business skills ‘on the job’, he may study part-time while helping with the family business.</p>	<p style="text-align: center;">Cons</p> <p>Option 1 There will be a period of time where he will not have an income; it will put a financial strain on the family to pay for his accommodation and living expenses in Fiji.</p> <p>Option 2 His parents will be disappointed that he is not studying for a tertiary qualification; he may not like the job or the people he works with; he may lose the desire to pursue further study; the skills he will gain will be limited to the type of work he is required to do in this job.</p> <p>Option 3 His parents will be disappointed that he is not going to study at USP; he will be dependent on the family business for his income; he may lose the desire to pursue further study; he may find the work he is doing boring.</p>

<p>Step 5 How do the options compare? Which option is the most preferred and how do the others rank?</p>	<ol style="list-style-type: none"> 1. Work at the Central Bank. 2. Study at USP in Fiji. 3. Work in the family business. <p>Note: Different people will rank these options differently because of the values they hold and the priorities that they have identified for themselves.</p>
<p>Step 6 Select the best option.</p>	<p>While choosing to work at the Central Bank will upset his parents, Lopeti believes that he will be able to convince them of the advantages of gaining the experience ‘first hand’ as well as being at home in case his father’s condition does not improve. This choice will also minimise the financial strain on the family as Lopeti will be earning an income. What is the opportunity cost involved in making this choice?</p>
<p>Step 7 What are the next steps? What needs to be done, now that a final decision has been made?</p>	<ul style="list-style-type: none"> ■ Discuss his decision with his parents. ■ Confirm with the Central Bank, his intention to take up the position offered. ■ Inform scholarship donor that he is not taking up the scholarship to study at USP.

Opportunity Cost

When Lopeti decided to take up the option to work at the Central Bank he missed out on going to the USP to study full time. This is the opportunity cost. This is the sacrifice made when Lopeti made the choice to remain in Samoa and work at the Central Bank.

Consumers and producers have limited resources and therefore are always having to decide between different options. When the decision is made, we miss out on the benefits of the next best option — this is the opportunity cost.

Activity 1**Economic Decisions**

- Copy and complete the following tasks in your exercise book.
1. What is the economic problem that effects all consumers and producers?
 2. Describe the link between the following economic ideas:
 - Opportunity cost.
 - Choice.
 - Scarcity.
 3. Use the decision-making model given above to help Eseta make a decision about buying a car.

Eseta has saved \$18 000.00 that she wants to use to purchase a car. Eseta is single and after she pays for her bills (including giving some money to her family) she saves \$200 each fortnight. Eseta has cut out the following advertisements from the local newspaper. Use the decision-making process to make a choice and evaluate the consequences of your decision. Follow each of the steps as shown in the model given on pages 60–61.

Ford Escort '96 \$22 000.00 O.N.O. Extras include CD player, mag wheels, only one owner. Hurry will not last.

Sidekick 2 DR '91 \$18 000.00

Ex-rental, well looked after with tape deck that works!

Hyundai Sonata '96 — air con, CD, electric windows.
Special one week only at discounted price of \$22 000.00.
Save \$3000.00 this week only.

1992 Nissan Pathfinder 4WD air con, excellent condition. Owner going overseas immediately and keen to sell. \$25 000.00 O.N.O.

4. Tana had \$3 to spend for his lunch. He could buy fish and chips, a keke pua'a or a meat pie. His first choice is fish and chips and then his next choice would be a meat pie. Explain the concept of opportunity cost to Tana.
5. Explain the following terms:

needs	means	opportunity cost	scarcity
choice	values	core beliefs	wants
6. Describe the factors that influence the values that people hold.

Government Controls

Government policies and strategies to control the economy will affect the price of products and therefore the choice of goods and services by consumers. The government can impose price control measures which will affect prices and productivity.

Remember that in every economy the following questions are asked:

- What is to be produced?
- How is it to be produced?
- Who is it being produced for?

When the economy allows producers and consumers to determine the answer to the above questions without government interference, then this is known as a **free market**. When the government makes all the decisions about what is to be produced and how it should be produced, this is known as a **planned economy**. You learned about this in Year 10. A **mixed economy** is one where it is partly free market and partly planned.

The government can enforce laws which will affect the price and supply of goods and services. This affects the choices that consumers can make when deciding on how to use their resources effectively. The most common type of government intervention in Samoa is the use of direct and indirect taxes.

Direct Taxes

This tax goes directly to the Inland Revenue Department from the individuals or organisations that it is imposed on. Examples of **direct taxes** include personal income tax and company tax. When the government collects taxes, they call this **revenue** (as it is income received by the government). This revenue is used by the government to fund health, education and other essential services. When personal income tax is increased, this will decrease **disposable income** (take-home pay) which means that people will have less money to spend on goods and services. Decreasing personal income tax will have the opposite effect and individuals will have more to spend on goods and services. When company tax is increased, this added cost is passed on to the production cost which means that the price of the final product is increased. A decrease in company tax will reduce production cost and the price of the final product will decrease. These changes will affect consumer choices of goods and services.

Indirect Taxes

Indirect tax is when the tax that is imposed onto one group can be passed onto those individuals who choose to buy the relevant products. An example of this is VAGST (value added goods and services tax). Producers pass this cost onto consumers. Another example of this is government tariffs (tax on imported goods) and excise tax (to control the price of goods and services). The government can impose taxes to control prices of goods, effecting consumer choice as well as to generate revenue to supply services to the country.

The following are extracts from the 2002/3 Budget address made by the Minister of Finance.

Extract one:

‘... I am announcing an increase in the rate of VAGST by 2.5% only, to take effect from 1 October this year. This date has been chosen to allow businesses and government departments to adjust their systems before the rate increase takes effect.

In considering the impact of this increase on the community, and particularly the poorest members of the community, I wish to point out the VAGST does not apply to a range of basic items. Examples include most raw fish, fruit and vegetables, water, power, taxi fares, public transport and many medical and educational services ...’

Extract two:

‘... I am pleased to advise that the Government will go further in compensating for the impact [of the increase of VAGST]. The import tariff on goods currently subject to a 10% duty rate will be reduced to 8%, also with effect from 1 October 2002 ... [this] duty applies to a wide range of goods commonly used by households as well as most raw materials and capital equipment used by businesses. Examples include building materials such as cement, galvanised iron, timber, glass and nails, as well as chemicals, fabrics, pumps, sewing machines, electrical fittings, most farm equipment, larger buses, some pasta and cereals and toothpaste.’

Extract three:

‘... The Government has chosen to provide compensation in the form of tariff cuts rather than by reducing income tax rates, as it is much fairer. This is because an income tax cut would only directly benefit the small percentage of Samoans who earn the highest incomes, whereas the reduction in tariffs that I have just outlined will directly benefit virtually all Samoans.’

Extract four:

‘The Government will increase excise tax imposed on a range of products, both for “user pays” and revenue reasons . . . To the extent that the goods affected are subject to price control, the approved prices will be adjusted accordingly.

(i) Soft drinks and alcoholic beverages

The current rate of excise on soft drinks is 30 sene per litre, which was set in 1998. It is proposed to increase this by 10 % to 33 sene per litre . . .

(ii) Petroleum products

It is proposed to increase the excise on unleaded fuel by 4 sene per litre, and on diesel and kerosene by 2 sene per litre. This tax in part represents a ‘user pays’ contribution to the high cost of building and maintaining the nation’s road system.’

Activity 2**Government Policies**

- Copy and complete the following tasks in your exercise book.
- 1. Describe how government policies influence price of goods and services. Use examples to illustrate your answer.
- 2. Define direct and indirect taxes, giving examples for each.
- 3. Read the four extracts from the 2002/3 Budget address and complete the table below:

Extract	Government tax(es)	Increase or decrease	Effect on price of goods
One			
Two			
Three			
Four			

Unit 6: DEMAND FOR GOODS AND SERVICES

Unit objectives

This unit of work relates to the ‘Consumers’ Decisions’ strand of the Business Studies Curriculum statements. From their study of this unit, students will understand the concepts related to making economic decisions. Students will investigate and develop their skills and understanding of demand for goods and services when they:

- Define the *Law of Demand*.
- Identify factors that effect demand for goods and services.
- Construct a demand schedule and graph a demand curve for an individual.

Introduction

Consumers acquire goods and services to satisfy their needs and wants. They have limited resources to buy the goods and services they would like. Consumers have limited income to spend to meet their needs and wants. It is the combination of the consumers’ desire to buy goods and services and their ability to pay for these which determines **consumer demand** for goods and services. Individual consumer demand can be determined when we know what they are willing and able to buy at various prices. The lower the price, the greater the consumer demand for the good or service. As we will see in this unit, this information can be recorded in a **demand schedule** or a **demand curve** on a graph.

Demand

Consumer demand is the **quantity** of goods or services consumers are **willing and able** to buy at **various prices** at a **certain time**. The key points of this definition have been highlighted to stress important criteria that need to exist for it to be called consumer **demand**.

Situation	Demand
Lara wants to go on holiday in New Zealand but she does not have the money to pay for it.	Low
Melesete wants to buy a new dress and she has the money to pay for it.	High
Sina can afford to buy a new television set but she doesn't need one.	Low

Price is the main factor which effects demand. People will buy at a lower price. As the price increases, demand for the goods or services will decrease.

Law Of Demand

This states that as the price of a commodity (goods or services) decreases, the quantity demanded increases, *ceteris paribus* (all other factors remaining the same). The opposite occurs when the price of a commodity increases.

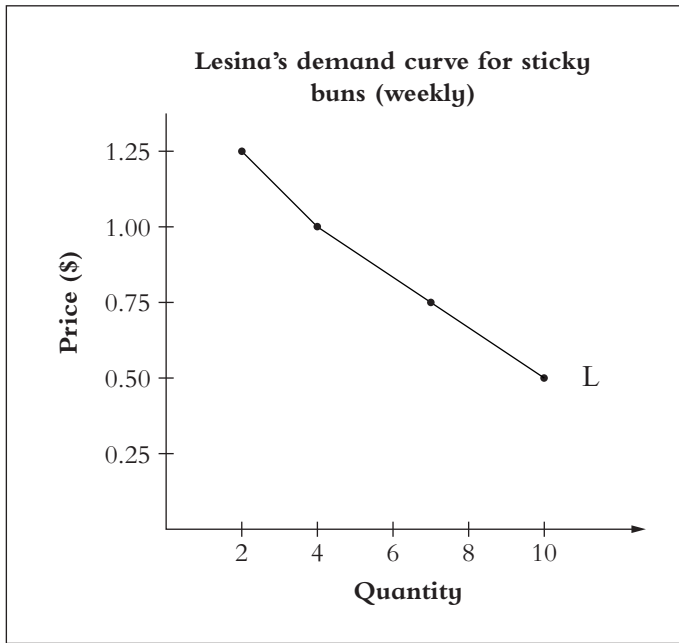
The school canteen sells sticky buns. Over a week, Lesina's demand for a sticky bun varies depending on their price. At 50 sene, Lesina will buy 10 buns, at 75 sene, Lesina will buy 7 buns, at \$1.00 she will buy 4 buns and at \$1.25 she will buy 2 buns each week.

This can be shown as a demand schedule and a demand curve:

Lesina's demand schedule for sticky buns (weekly)	
Price of sticky bun (\$)	Quantity demanded
0.50	10
0.75	7
1.00	4
1.25	2

Demand schedule

- Should have a title showing: who? what? when?
- Price is always the left-hand column and is shown as \$ or sene and should be listed from lowest to highest.
- Quantity is the right-hand column, showing the amount of item demanded.



Demand curve

- The graph should always have a title showing: who? what? when?
- The price is always drawn on the Y or vertical axis and it must be labelled.
- Quantity is always drawn on the X or horizontal axis and it must be labelled.
- The curve should always be labelled.
- Use an even scale.

Do not take the curve beyond the points for which you have plotted from the information in the supply schedule.

Figure 6.1
Demand curve for sticky buns.

A change in the price of a commodity causes a change in the **quantity demanded**. This means that there will be movement along the demand curve. As the price goes up, the quantity demanded will decrease. As the price decreases, the quantity demanded will increase, *ceteris paribus*.

Lesina's demand curve for sticky buns can be used to illustrate the movement along the demand curve as the price increases or decreases.

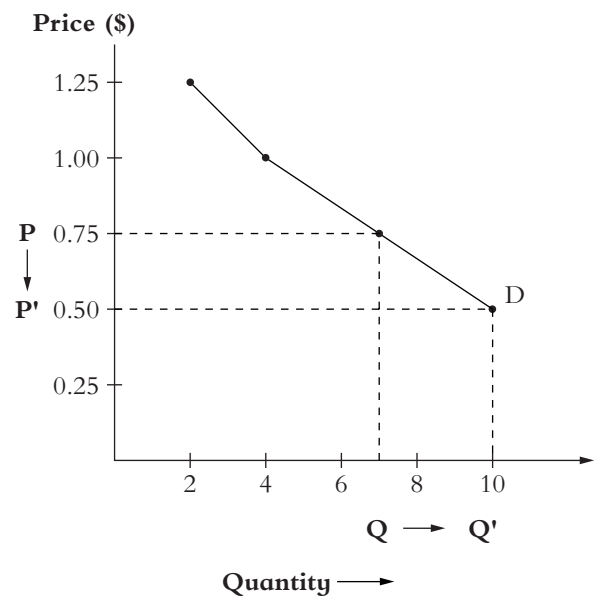
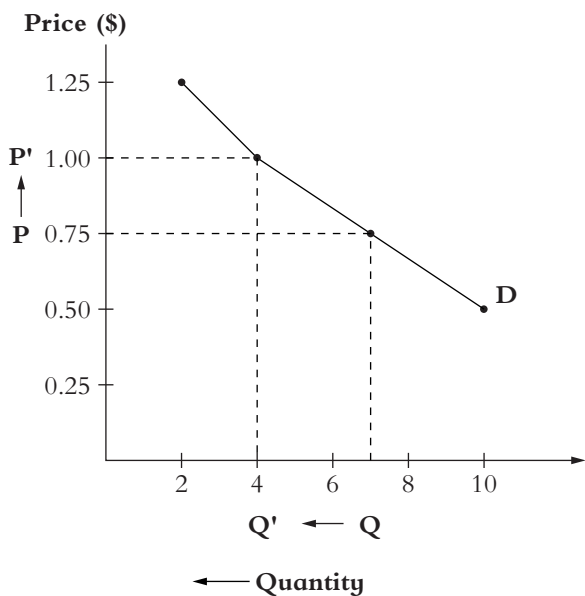


Figure 6.2
Movement along the demand curve.

Activity 1**Demand Curves**

- Copy and complete the following tasks in your exercise book.
1. Draw the following demand curves on separate graphs using the information from the demand schedule for packets of twistees (weekly) for Hana, Kamu, Ronnie and Ana. The demand curve for Hana has been completed as an example.

Demand schedule for packets of twistees (weekly)				
Price (\$)	Hana (quantity)	Kamu (quantity)	Ronnie (quantity)	Ana (quantity)
0.50	5	6	3	8
1.00	2	3	1	4
1.50	1	2	0	2

Hana's demand curve for packets of twistees (weekly)

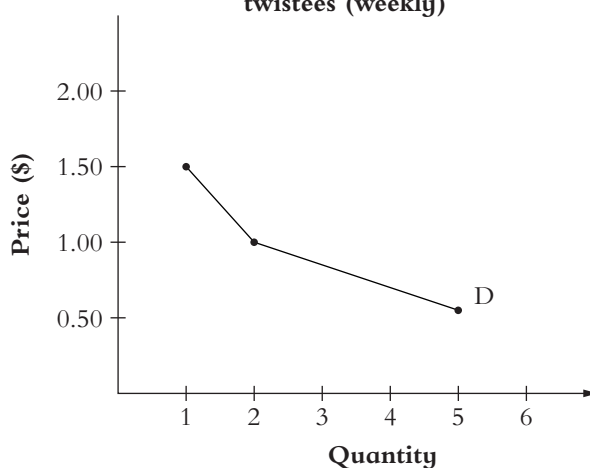


Figure 6.3
Example demand curve.

2. Define the following terms:

<i>ceteris paribus</i>	demand curve	consumer demand
demand schedule	consumer	want

3. From the graph below, construct a demand schedule:

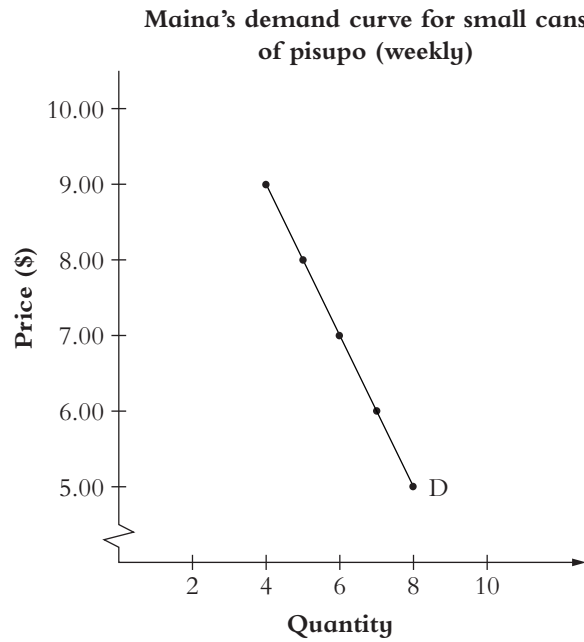


Figure 6.4
Demand curve for cans of pisupo.

4. Use the following graph to complete the sentences below:

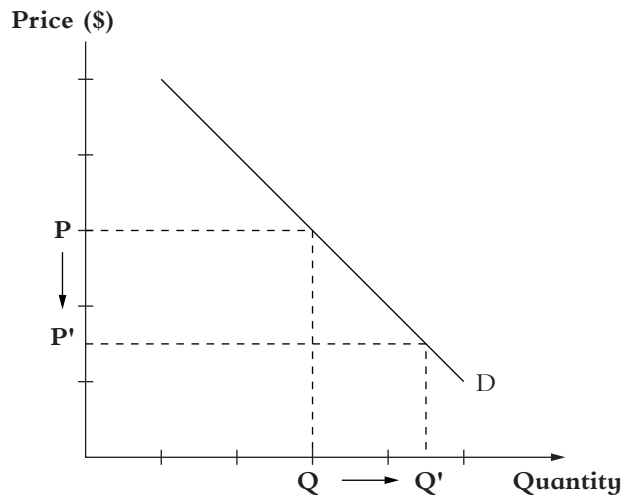


Figure 6.5
Standard demand curve.

A price d _____ is shown on the demand curve above which results in an i _____ in q _____. The change shown is called a movement along the d _____ c _____.

Other Factors That Affect Demand

Demand can change when the price of the goods or services increases or decreases. We saw that when the price increases, the quantity demanded decreases. When the price decreases, the quantity demanded increases. There are factors other than price that can affect consumer demand. Non-price factors include consumer preferences, consumer income, the price of substitute goods and the price of complementary goods. When there is a change in demand due to factors other than price, the whole demand curve shifts to the left or the right.

Consumer preferences

People may change what they like for a variety of reasons. Individuals prefer particular goods or services but as these preferences change, this affects the demand for the product. As a product becomes more popular, where consumers demand more of the product at the same price, the whole curve moves to the right.

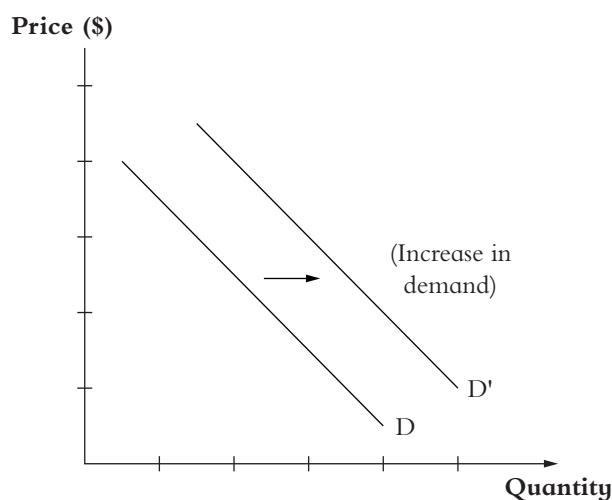


Figure 6.6
Increase in demand.

If a product becomes less popular, consumers will demand less of the product at the same price and the whole demand curve moves to the left.

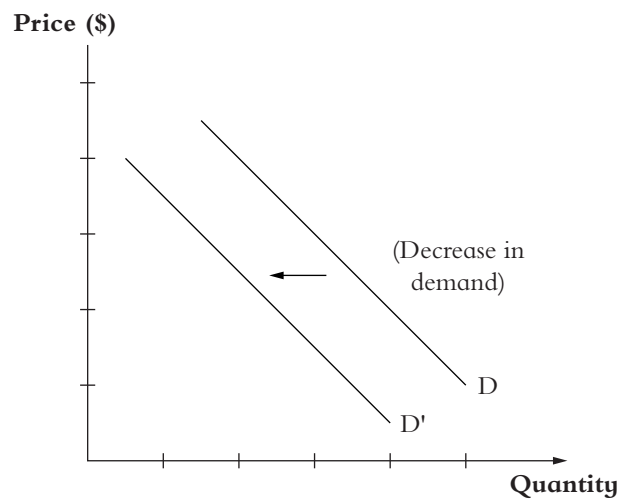


Figure 6.7
Decrease in demand.

Consumers' preferences are influenced by a number of factors. Businesses use advertising to influence consumers' preferences. Goods also become fashionable because they feature in a television programme or movie. A lot of the trends for fashionable goods or products are influenced by what is happening in other countries and they become known to people in Samoa through the media, tourism and through making contact with friends and families from outside of Samoa.

Values also influence preferences. As we learned in the previous unit, values are core beliefs, things that are considered important and which influence a person's behaviour and thinking.

Consumer preferences are also influenced by events, like White Sunday, Easter and Teuila Festival. Usually on such days, retail stores and restaurants will focus their attention on providing those goods and services that will be in high demand from consumers.

Income levels

Consumer income levels determine what they spend on goods and services. So, when an individual's income changes, this has an effect on demand. However, when an individual's income increases they may demand less of some goods that they would previously have bought and their preferences change because they can now afford better quality goods. The goods that they no longer desire are known as **inferior goods**. If the individual's demand for goods they usually buy increases, this type of good is known in economics as a **normal good**: *e.g. When Elana is on a lower income she buys rice for her family meals. However, as she has an increase in her income, she no longer buys as much rice. Instead she buys potatoes because she can afford it. So, as income increases, Elana's demand for rice (inferior good) decreases and her demand for potatoes (normal good) will increase.*

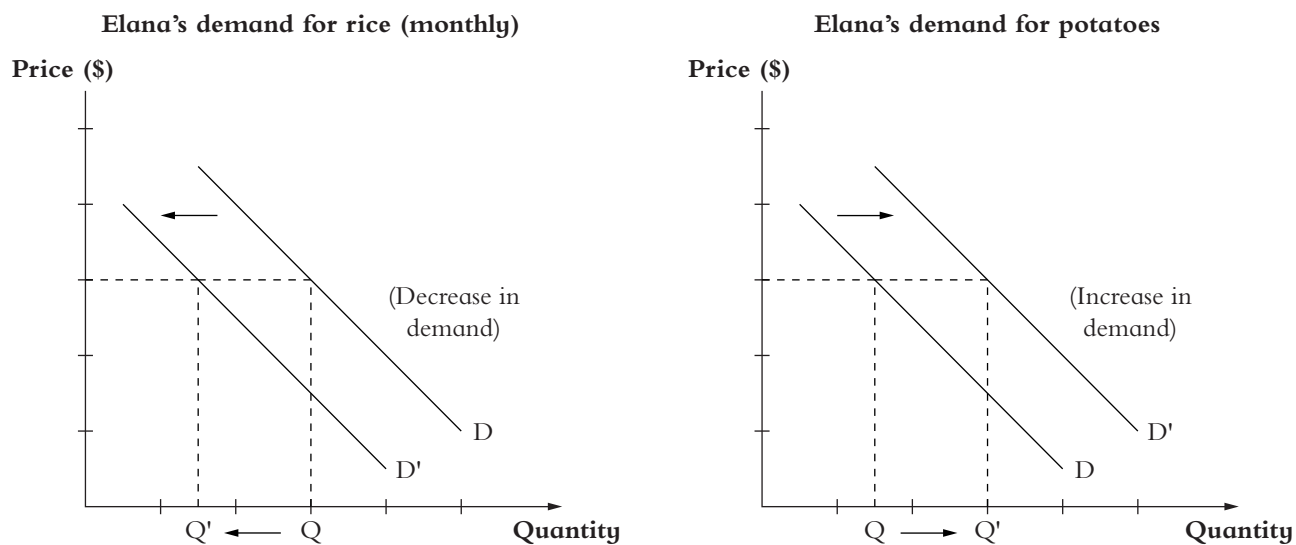


Figure 6.8
Shifts in demand.

Income is also affected by income tax rates. If personal income tax decreases, this will increase the take home pay or disposable income of an individual. An increase in disposable income means that the individual has more money to spend on goods or services. The individual's **purchasing power** has increased and their demand for better quality goods or normal goods will increase. If income tax was to increase, it would have the opposite effect, decreasing the purchasing power of individuals and therefore effecting their demand for goods they usually buy. It may also change their preferences as they may need to purchase cheaper goods to meet their needs and demands.

Substitute goods

These are goods that can replace others. An example of this is taro and rice. We saw this in Samoa when the African snail blight hit the taro plantations. There was no taro available and consumers purchased other similar goods to meet their needs. In particular, rice became a staple food in many homes. However, as taro became available again, the popularity of rice decreased. When taro returned to the market, it was very expensive and many consumers could not afford it. However, as the supply increased and the price decreased, taro was affordable and the demand for rice decreased, even though the price for rice stayed the same. The graphs on the next page show how the shift from one good to another substitute good affects the demand for these goods.

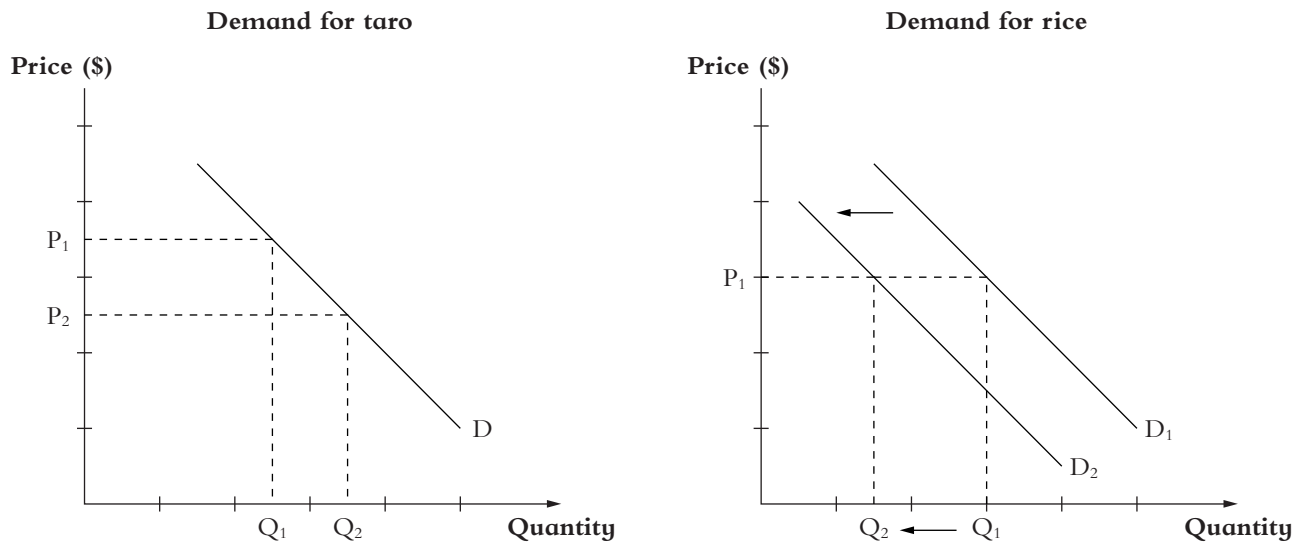


Figure 6.9
Substitute goods effect.

Complementary goods

Complementary goods are goods that usually go together, like bread and butter and fish and chips. Therefore when the price of one goes up, with a corresponding decrease in demand, the demand for the other complementary good will also decrease. If the price of bread increased, then this would affect the demand on butter. The demand for butter would decrease as less people would buy bread because of the increase in the price, even though the price of butter has not changed. The graphs below show the effect that this has on each of the different goods.

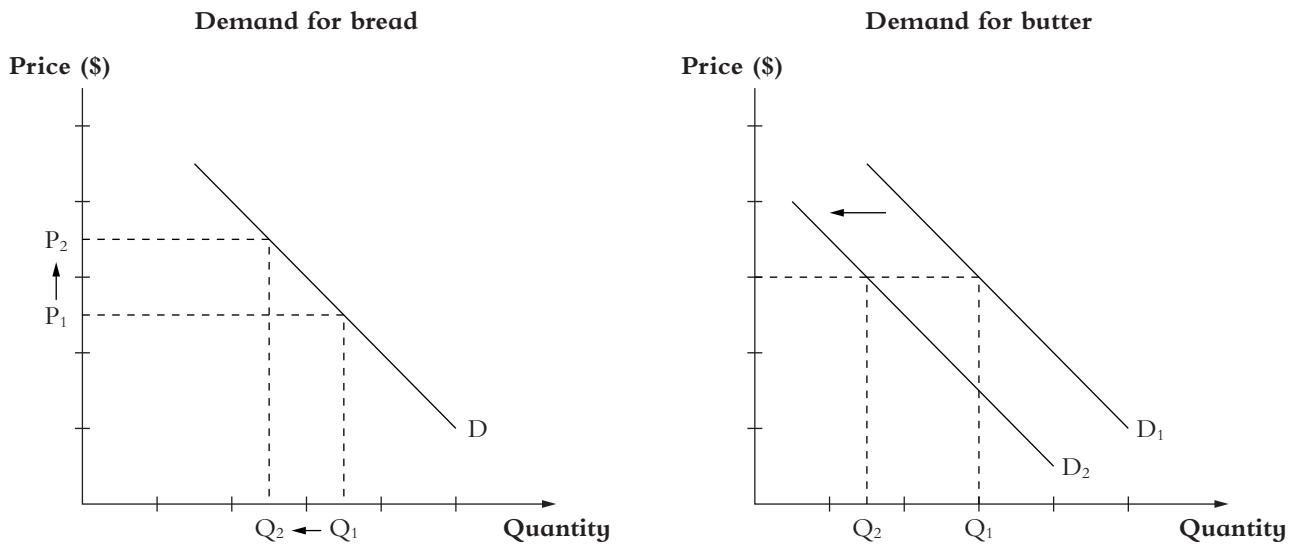


Figure 6.10
Complementary goods.

Changing Demands

- Copy and complete the following tasks in your exercise book.
- Describe four causes of a shift of the demand curve to the right.
 - Define the term substitute goods in your own words.
 - Give five examples of sets of substitute goods.
 - Define the term complementary goods.
 - Give five examples of sets of complementary goods.
 - Draw on your page six sets of axes labelled price and quantity and sketch on each graph a demand curve labelled D. Label each set of graphs (a) to (f). On each graph, show the effect for each of the following changes.
 - Demand for Lisa's orange juice when Pili's orange juice increases in price.
 - Demand for ice-cream during White Sunday.
 - Demand for videos when the Majik Cinema reduces their entry fee to half price.
 - Demand for green bananas at the market when the price of taro increases.
 - Demand for fish when the price of fresh beef doubles.
 - Demand for cold fizzy drinks when the temperature in Samoa reaches an all-time high.
 - Use this demand schedule to answer the questions that follow:

Demand schedule for video tapes by the Sala family		
Price (\$)	Quantity demanded in the weekend	Quantity demanded during the week
3.00	10	7
5.00	7	4
8.00	4	1

- Give two possible reasons for the change in the quantity demanded during the week and the weekend as shown in table above.
- Describe the change shown in the table above for the Sala family's demand of video tapes.

4. Write one of the following statements to describe the effect that each situation has on demand or the quantity demanded.

increase in demand

decrease in demand

increase in quantity demanded

decrease in quantity demanded

(Remember, when the whole demand curve moves, then this is a change of the quantity demanded. When there is a shift along the demand curve, then this is a change in demand.)

<p style="text-align: center;">Situation (for Mama’s soap powder)</p>	<p style="text-align: center;">Description (for Mama’s soap powder)</p>
a. Shift of the demand curve to the right	
b. A price increase for Mama’s soap powder	
c. A price decrease for Mama’s soap powder	
d. An increase in the price of Samoa’s soap powder by 25%	
e. An increase in income tax rates	
f. Increased advertising and promotion of Mama’s soap powder	
g. A competitor runs a promotion with free small sample packets of their soap powder given away.	

5. Read the case study below and then answer the questions that follow:

At the end of each year, Polynesian Airlines and Air New Zealand offer special return fares to New Zealand and Sydney. The fares can only be used for travel during December and are for 7–30 days stay in New Zealand or Sydney. This year, Polynesian Airlines will not offer this special fare. Air New Zealand has begun promotions for their special and has booked special flights to cope with the planned increase in travellers.

- a. Describe how the above situation will affect:
 - i. Demand for Air New Zealand seats to travel to New Zealand and Sydney during December.
 - ii. Demand for Polynesian Airlines seats to travel to New Zealand and Sydney during December.
 - b. Draw the graphs to support your response to the situations you described in (a) above. Label your graphs carefully.
 - c. Make three suggestions to Polynesian Airlines as to how they can increase the demand for their services during the time that Air New Zealand is running its specials.
6. Explain what causes a decrease in demand.
 7. Explain what causes a decrease in quantity demanded.
 8. Give two causes of a shift to the left of the demand in mangoes.
 9. State if the following would cause a shift to the left or right for rugby balls demand curve.

Situation	Shift in demand curve for rugby balls (left or right)
Free rugby coaching is offered to all boys under 12.	
The price of soccer balls and basketballs is reduced by half.	
Manu Samoa wins the World Cup.	
The All Blacks captain is signing all rugby balls sold at Amau's.	

Unit 7: RIGHTS AND OBLIGATIONS OF CONSUMERS AND PRODUCERS

Unit objectives

This unit of work relates to the ‘Consumers’ Decisions’ strand of the Business Studies Curriculum statements. From their study of this unit, students will understand the interaction of households and firms in the market. Students will investigate and develop their skills and understanding of the rights and obligations of consumers and producers in the Market when they:

- Recognise and describe conditions that are required for a market to exist.
- Recall what groups are involved in the economy.
- Define the term ‘contract’ and identify the rules or conditions under which contracts will exist.
- Identify the rights and responsibilities of consumers and sellers.
- Investigate the consumer laws of Samoa.

Introduction

This unit introduces students to the concept of the market and the role of consumers and producers within it. The complexities of the market and how it is effected by the demand and supply of goods and services is dealt with in more depth in Year 12. This unit will also look at the rights and obligations of consumers and producers and the regulations and documents relevant to this.

Producers use factors of production to produce goods and services. We have looked at this in detail earlier in this book. We also looked at how supply of goods and services by producers can be affected by various factors. Consumers use their resources (income) to buy the goods and services to satisfy their needs and wants. In the last unit we saw how consumer demand for goods and services is affected by different factors. When information from producers and consumers is combined, it is used to determine the price at which goods and services can be provided. One way that this communication can occur, is through the marketplace.

The Market

The market is a place or situation where buyers and sellers can exchange goods and services. In the past when people were self-sufficient, they were able to provide for their own needs and wants. However, as time went on, individuals began to specialise and they could no longer be independent. They had to rely on others to provide items that they could not produce themselves. Individuals became interdependent and as a result of this, the concept of markets developed. Individuals needed a place where they could exchange the excess goods that they did not need for those goods that they required. One good example of this in Samoa is the fruit and vegetable markets in Apia and Salelologa. Another market tool that is used often in Samoa is the media, particularly the daily newspapers. The sale of goods, property, cars, land and shares are often advertised for sale or tender in the newspaper. The internet is becoming a popular marketplace where sellers from around the world can advertise their goods and services. Another commodity that is sold or bought in a marketplace is labour. Advertisements for positions vacant in different companies are examples of buyers communicating with prospective sellers about what they are looking for. The following are examples of different marketplaces.



Figure 7.1
Fruit and vegetable market.

Advertisements in newspaper

House For Rent

Sinamoga: Immaculate 3 bedroom house, fully furnished, hot water. Telephone, fenced.

Available NOW

Contact: Roy or Fiona 24243

Looking for Land

Cash Buyer: looking for 1 acre lot near Vailele or Fagalii area. Call 24567 and leave message for Luisa.

Samoa Development Bank — Tender Notice

Tenders are invited from interested buyers for the following vehicles.

1998 White Toyota Tacoma Pick Up; 2000 Blue Toyota D/Cab; 1993 Grey Nissan Quest; '96 White Hyundai Sonata.

Vehicles can be inspected at ABC Ltd in Savelalo before 2 October, 4pm. The closing date for tenders is 5 October 2003. Tenders addressed to:

The General Manager
Development Bank
PO Box 32
Apia
SAMOA.

and to be marked 'Tenders For Vehicles'.

Different Types Of Markets

Goods and services market

This is where producers provide households with finished goods and services in exchange for payment. Examples include sale of food items, repair of a motor vehicle and sale by catalogue or online internet sale of clothes.

Resources market

Households provide producers with resources (land, labour and capital) in exchange for payment (rent, wages and interest). Examples of this include sale of land, job vacancy advertisement and sale of equipment.

Money market

Households provide financial institutions (such as banks and finance companies) with their savings in exchange for payment (interest). Financial institutions lend this money to producers in exchange for payment (interest). Examples of this include bank interest rates for personal savings or investment, and bank interest rates for lending (on loans).

Foreign exchange market

Exporters and importers trade with overseas firms or businesses and there is an exchange of Samoan currencies and overseas currencies. Firms pay for overseas goods imported into Samoa with the different overseas currencies. Samoan importers buy overseas currencies to pay for the goods they eventually sell in Samoa. The exporters sell goods and services overseas and receive overseas currencies for them. Examples — Aggie Grey Hotel sells the \$US it receives from American tourists in exchange for SAT\$.

Activity 1**Markets**

- ▣ Copy and complete the following in your exercise book.
- 1. Describe how the buyers and sellers in a fish market interact each morning. How does this describe a marketplace?
- 2. Explain how the concept of the market developed. Ensure that you use the concepts of specialisation, interdependence, barter, money and exchange.
- 3. How does the use of money make it easier for a consumer to buy goods and services?
- 4. Cut out an advertisement from a newspaper where goods or services are offered or requested. Paste this into your exercise book and explain how this is an example of a marketplace.
- 5. Describe the different markets and explain how they function in the Samoan economy.

The Flow Of Goods And Services

You have learned in Years 9 and 10 that the economy is made up of different groups. The interrelationship of these groups was shown on a diagram called a circular flow. In earlier books a simple circular flow diagram was used to show the flow of goods and services between consumers and producers (see Figure 7.2).

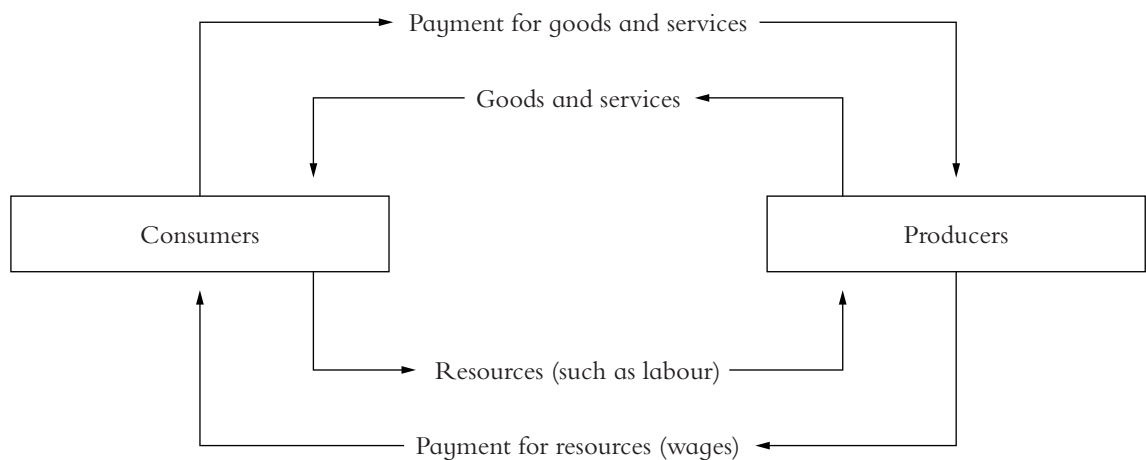


Figure 7.2

Circular flow of goods and services between consumers and producers.

This shows that consumers provide their labour (human resource) to producers who then pay them wages. Consumers use their wages to purchase goods and services from producers. The situation in real life is not as simple as the diagram above shows. In reality, consumers have to pay taxes on the income that they earn and producers have to pay tax also. These taxes are collected by the Inland Revenue Department on behalf of the Government. We also know that consumers do not always have enough money to buy the goods and services they desire and sometimes borrow money from banks or other institutions to satisfy their needs and wants. When consumers or producers have excess money, they save or invest this at a bank or in other ventures. You can see from this description that two new groups have been introduced into the circular flow: the Government and Financial Institutions. The expanded circular flow diagram that includes these two new groups is shown on the next page.

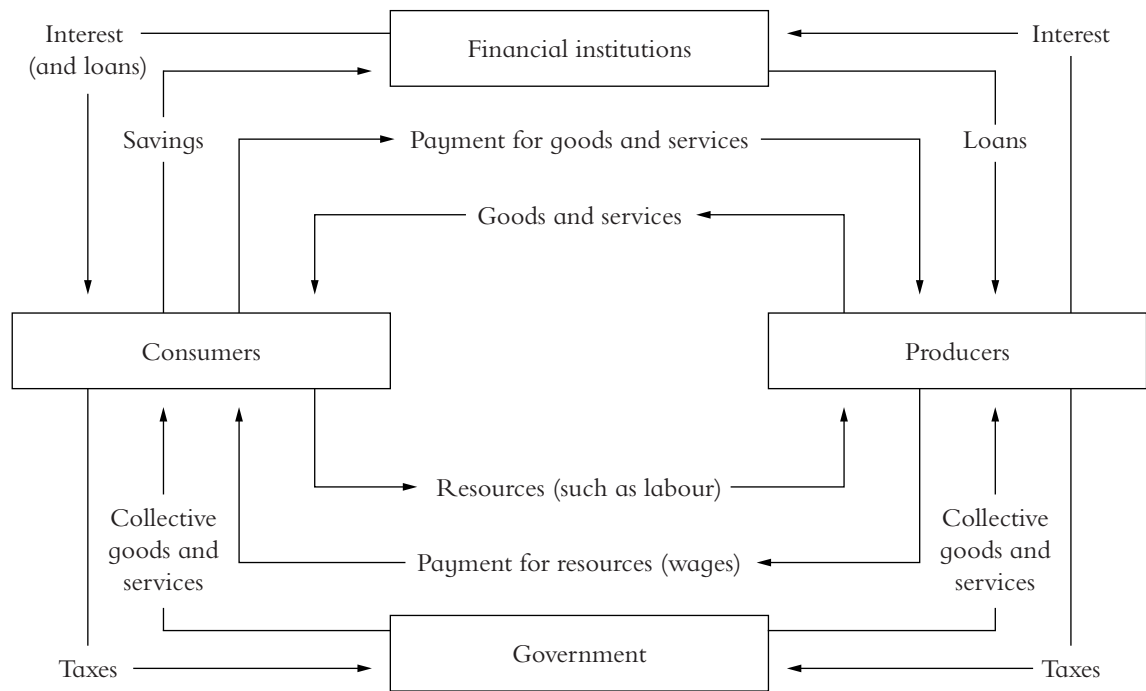


Figure 7.3

Circular flow of goods and services between consumers, producers, government and financial institutions.

The participants in the circular flow are

1. Consumers

- ❑ Buy goods and services from producers.
- ❑ Pay for goods and services.
- ❑ Own resources: *e.g. Land, labour, capital, entrepreneurship.*
- ❑ Allow producers to use their resources in return for payment.

2. Producers

- ❑ Provide goods and services for consumers.
- ❑ Receive payment for goods and services.
- ❑ Use resources provided by consumers.
- ❑ Pay consumers for resource use.

3. Government

- ❑ Receive tax payments from consumers and producers.
- ❑ Provide collective goods and services for consumers and producers.
- ❑ Provide benefits for some consumers (*e.g. pensioners*).

4. Financial institutions

- Receive savings from consumers and producers.
- Pay consumers and producers interest on savings.
- Provide loans to consumers and producers.
- Receive interest on loans to consumers and producers.

Activity 2

The Relationship Between Producers And Consumers

Copy and complete the following in your exercise book.

1. Complete the following statements;
 - a. Producers provide _____ and _____ to consumers.
 - b. Consumers own the _____ which they provide to producers in return for _____.
 - c. Government collect _____ from both consumers and _____.
 - d. Financial institutions pay _____ to consumers for savings they invest with them.
 - e. Resources which consumers own and provide to other consumers are sometimes called _____ of _____.
 - f. Producers pay for the use of resources they use in the production process: they pay _____ for the use of land, _____ for the use of labour or human resources, _____ for the use of capital and _____ for entrepreneurship.
 - g. The government provides _____ and services to consumers and _____. Examples of this are goods and services provided by government _____ and corporations.
2. What is the function of a circular flow diagram in economics?
3. Explain in detail the relationship between:
 - a. Consumers and producers.
 - b. Producers and government.
 - c. Financial institutions and consumers.
 - d. Consumers and government.

Contracts

The market exists when people interact with each other or with organisations. When this interaction occurs, some individuals or groups can try to take advantage of others for greater gain. Consumers and producers are always looking for ways to better utilise their resources but some try to use unlawful ways to gain an advantage. Governments have established laws to discourage people from taking advantage of others in a market situation. These laws set out the obligations for those who participate in the market (buyers and sellers) and aim to protect the victim (the person whose rights are violated).

Rights and obligations

Rights are what people can reasonably expect or are entitled to. They are things that buyers and sellers are entitled to. **Obligations** are duties or responsibilities. They are things that buyers and sellers are required to do.

When a consumer buys goods from a retailer, she expects the goods to be fit for the purpose intended. If she bought a one litre carton of orange juice, she would expect there to be at least one litre of juice and that the juice has not exceeded the ‘use by’ date on the packet. If not, then the consumer is entitled to return the juice to the seller to be replaced by another carton of juice or have a refund on the amount paid for the juice. The consumer has a right to expect the juice to be of a particular standard. The retailer is obliged to provide the goods at that expected standard. What does the retailer do with the juice that has been returned back to the shop? The retailer can return the juice to the producer if the juice is under the stated volume of juice (less than one litre in contents — though this may be hard to prove) or if the ‘use by’ date has been exceeded when the juice was first bought from the producer. If the retailer has had the juice in storage for a long time so the ‘use by’ date has been exceeded, then it is the retailer’s fault and this is a cost to the business.

Consumers must be aware of their rights and be careful when buying goods and services that they are not being ‘ripped off’, or taken advantage of. A Latin phrase **caveat emptor**, which means *let the buyer be aware* is used to describe this precaution for consumers. In Samoa, as in other countries, laws have been established and enforced to clarify the rights and obligations of buyers and sellers. However, this does not mean that consumers should not be careful when interacting with others in the purchase of goods and services.

A **contract** is a formal agreement between two parties that will be upheld by law. The word ‘parties’ refers to the individuals or groups involved. Contracts are only valid if all of the six following elements are present:

- **Intention** — that both parties intend for there to be a legal relationship. When buying or selling a used car, food products, land or a newspaper, there is an intention to establish a legal relationship between the seller and the buyer.
- **Offer and acceptance** — one party must make an offer and the other party must accept. The offers and acceptances can be written, spoken or communicated with actions. When sellers display their fruit and vegetables at the market, they usually place a sign near the items offering the goods at a stated price. A buyer can accept this offer (*e.g. A \$2 bunch of ripe bananas*) and buy the bananas. The seller makes the offer and the buyer accepts the offer. No words are spoken but the offer is made and accepted and the transaction occurs. If an item is advertised in the newspaper, the seller is making a offer to interested parties. If a person decides that they want this item, they can accept the offer made (by contacting the seller and agreeing to the price advertised). This prospective buyer can also make a counter offer (usually at a price lower than the original offer) to the seller which can be accepted or not.
- **Consideration** — this is a legal word (a term used in law) used to describe that the parties must have something of value to exchange or contribute in the contract. The seller contributes the product (goods or services) and the buyer contributes cash (or some other form of payment).
- **Capacity** — each of the parties must be capable of entering into the contract. Each party must be of a legal age, be sane and sober (not drunk) to enter into a contract.
- **Consent** — each party must have freely agreed to the contract without any force or deceit. This means that if one party puts pressure on the other by intimidation or making threats then the contract is deemed void or invalid. If one party uses false information or is dishonest in how the contract is negotiated, then the contract becomes void.
- **Legal activity** — the activity the contract covers must be legal. An example of failure of a contract to be for a legal activity could be that a seller advertises a car for sale in the newspaper. A prospective buyer looks over the car and agrees to buy it when he sights the registration papers and proof that the seller is the owner of the car. The seller cannot confirm this and so the contract to buy the car is not valid.

Only valid contracts will be upheld in court.

Laws To Protect The Rights Of Buyers And Sellers

Acts of Parliament (or laws passed by parliament) are designed to protect the rights of buyers and sellers in the market. The relevant Acts in Samoa, designed to assist in this are:

Fair Trading Act 1998 — this act was established with the objective of protecting the rights and interests of consumers and to establish certain standards of conduct by those engaged in production, sale and distribution of goods and services to consumers. The Department of Trade, Commerce and Industry has been given the responsibility of administering this act.

Consumer Information Act 1989 — this act makes provision for the informative labelling and marking of goods to prevent deceptive or misleading packaging, labelling and advertising. This is to ensure that goods are labelled accurately and packaged or advertised so that the buyer is not misled — products must show their weight, ingredients, name and address of manufacturer and the name of the product. Food items must show the date of packaging and/or date by which the food should be consumed (use by date).

Sale of Goods Act 1975 — this act relates to the sale of goods, setting out the various details of the formation of contracts. It also states the rights of the seller and the remedies for a breach of contract (when a contract is broken).

Activity 3**The Contract Between Buyer And Seller**

- Copy and complete the following in your exercise book.
1. Define a contract and describe using your own words the six elements required for a contract to be valid.
 2. What is meant by the term *caveat emptor* and how does it relate to the rights and responsibilities of the buyer?
 3. Packets of UHT Milk are displayed in the store in your village. What things should a buyer check before he/she buys a packet of milk? How does this relate to the term *caveat emptor* that you explained in question two above?
 4. Rita offers her computer for sale for \$3000. Pina offers \$2500 cash and a television set worth about \$700. Rita says that she will think about it. The next day, Semi offers Rita \$3000 cash for the computer and Rita accepts this offer and sells Semi the computer.
 - a. State which of the elements required for a contract to be valid does not occur between Rita and Pina.
 - b. Identify the two items of consideration mentioned in this situation.
 5. Describe how the Consumer Information Act would apply in the situations given below:
 - a. A 500ml bottle of cola-flavoured soft drink is only half full when it is sold at the shop.
 - b. An advertisement for a laundry powder (used for washing clothes) claims that it 'washes clothes 5 times cleaner'.
 - c. A UHT Milk packet is sold but the 'use by date' has expired.
 - d. An item of clothing states that it was made in USA when in fact it was made in Fiji.
 6. When Feleni buys a hamburger at McDonalds, she has certain rights. Describe two such rights. Describe a right that the seller has.
 7. Inspect the products you or your family buys over the next week. Do they have the following labels:
 - weight
 - ingredients
 - name and address of manufacturer
 - name of product

Which items do not comply with the Consumer Information Act 1989? As a class, discuss solutions to this dilemma.

Unit 8: INSURANCE

Unit objectives

This unit of work relates to the 'Consumers' Decisions' strand of the Business Studies Curriculum statements. From their study of this unit, students will understand the interaction of households and firms in the market. Students will investigate and develop their skills and understanding of insurance as a form of contract when they:

- Describe the principles of insurance and the different forms of insurance available in Samoa.
- Investigate which insurance types are the most popular in Samoa.

Introduction

Insurance is a method by which people agree to share the cost of a loss which any of them may suffer. People pay into a fund to build up a pool of money and those who suffer a loss are paid from the fund. Insurance is thus a form of group protection. Insurance originated many years ago and the first recorded description was in China in about 3000 B.C. when merchants shared the risk of losing their boats and cargo. They did this by forming a group so that when one member's boat sank or was lost at sea, then the other group members would contribute to replace the boat and cargo. In this way, one person would never lose everything. The risk was shared. This unit discusses the details of an insurance contract and principles of insurance. It will also look at the value of having insurance and the different types of insurance available in Samoa.

Principles Of Insurance

Insurance is a service organised for consumers and producers by insurance companies or by the government (such as government superannuation).

The three principles of insurance are:

1. **Insurable interest** — which means that the person or business who takes out the insurance policy (the person insured for the loss) must be the one who suffers the loss if the property or life is damaged or destroyed.
2. **Indemnity** — means that the insurance company (insurer) will only compensate (pay) for the actual loss suffered. The insured should not make a profit from the loss or damage of the property.
3. **Utmost good faith** — means that insurance companies rely on the honesty of people who take out the insurance policy. The companies have no way to check accurately for the value of the items insured. However, when a claim is made, the insurance company may do an investigation of the facts to ensure that all details in the claim are true. If any of the details are false, then the company can refuse to pay out on the claim.

Insurance premiums and claims

Individuals and firms protect themselves against future risk or events that could cause them loss of property or life. The idea of insurance is that individuals or firms pay an amount of money (premium) regularly into a fund that they can claim against when they suffer a loss for which they are protected. For example, fire insurance protects against the risk of property being destroyed or damaged by fire. A **premium** is that amount of money paid regularly by the insured (individual or firm) to the insurer (insurance company) for insurance cover or protection. A **claim** is a request made by the insured to the insurer to reimburse a loss or damage of property (or life) as covered in the insurance policy. An **insurance policy** is the contract or agreement that sets out the terms and details of the property or life coverage protected by the insurance company.

Insurance companies collect the premiums paid to them for different policies and this is invested in different ways. For example, the money that is collected by the government in the form of superannuation or NPF (national provident fund) is invested by NPF in different shares such as securities sold by the government, loans to members, shares in other companies, investments in banks and cash. In this way, NPF can generate income from the premiums collected that it uses to pay for the administration of NPF, pay some of the profit to its shareholders (public and the government) and reinvest for future growth.

Activity 1**Insurance**

- Copy and complete the following in your exercise book.
1. Explain in your own words the meaning of the term insurable interest.
 2. Head up two columns, 'insurable interest' and 'no insurable interest'. Place the following statements in the correct columns.
 - a. When a person borrows money from the bank to purchase a car, the bank requests that the person invest in car insurance.
 - b. A villager wants to insure his neighbour's house.
 - c. The parishioners want to insure the church buildings against natural disasters and fire.
 - d. A girl wants to insure her boyfriend's guitar.
 - e. A husband wants to insure his family's lives.
 - f. A traveller wants to insure her travel plans.
 - g. A doctor wants to insure his patient's life.
 3. What are the three principles or rules of insurance?
 4. State which principle of insurance has been broken in each of the following situations:
 - a. Fale bought a television set from his friend Agnes for \$200 and insured it for \$1000. The television was stolen and Fale put in a claim for \$1000.
 - b. Ron set fire to his house to get the insurance money.
 - c. Telesia insured her life for \$100 000 and then killed herself so her family would get the insurance money.
 - d. Hemi filled in a proposal to set up a life insurance policy and did not write down that he had a heart operation two years ago.
 - e. Sala broke off the door of her refrigerator so that she could get a new one through the insurance.
 - f. Malo did not tell the insurer that she was a pilot.

Main Types Of Insurance

A person or a business can insure anything provided the insurer will accept the risk. Generally, the higher the risk, the greater the cost of the insurance.

Insurance		
Personal and family	Business protection	Social protection
<ul style="list-style-type: none"> ■ Life insurance (assurance). ■ Home-owners (house). ■ Home contents (furniture, fittings, appliances in the house). ■ Travel. ■ Motor vehicle. 	<ul style="list-style-type: none"> ■ Freight. ■ Marine. ■ Cargo. ■ Theft by employees. ■ Commercial vehicle (vehicles used in the day-to-day operations of the business). ■ Loss of income. ■ Loss of rent. 	<ul style="list-style-type: none"> ■ Accident compensation. ■ National superannuation. ■ Medical. ■ Hospital. ■ Natural disasters. ■ War damage.

Life Insurance

Life insurance (or assurance) involves individuals paying premiums which results in a lump sum payment being made to the estate (the assets and property of the person insured) upon his/her death. Life insurance is different from other types of insurance as there is a real certainty that the person insured will die. The other types of insurance deal with probability, whereby the insurance is taken out to cover the possibility of an event occurring. Consumers pay regular premiums and in the event of their death the insurance company will pay a lump sum to the consumer's estate. Consumers will take out this type of insurance as it gives them some reassurance that upon their death, there will be some money to help the family overcome difficulties that may arise.

Case study — Amosa approaches Health and Wellbeing Life Assurance Company (HWLAC) as he is interested in taking out a life insurance policy. Amosa works as a taxi-driver. He and his wife Tiana have two young children aged 4 and 7 years. When he approaches HWLAC, Amosa is asked to fill in a proposal (or application for insurance, see next page). A proposal is an offer from Amosa to the insurance company to form an insurance contract. The company will consider the proposal and will require Amosa to fill out a personal statement, which asks for more details about his health, past or present illnesses, family history of illnesses and any accidents. This is so that the insurance company can assess whether Amosa is a good risk. The insurance company will not want to insure Amosa if he has a serious illness and may die in a short period of time. The company will suffer too great a loss if it insures Amosa and then, after only two years, has to pay out a large amount of money. However, some insurance companies will offer to insure higher risks for higher premiums. Insurance companies also offer lower premiums to those people who are non-smokers and/or are non-drinkers. Many consumers will use one insurance company for all their insurance purposes as this may lower the premium rates that they have to pay.

There are different types of life insurance:

Whole life insurance — the most common, where a lump sum is paid upon the death of the insured and runs for the whole of his or her lifetime.

Term insurance (temporary insurance) — this type of life insurance runs for a set period of time and once this time is up, the insurance policy ceases. Term insurance is useful for a parent with a young family. The parent takes out the insurance while the children are young and once they are grown up and no longer dependent, the parents can change or stop the policy.

Endowment insurance — is similar to term insurance in that the insurer is only covered for a period of time: *e.g. Up to 65 years of age*. If the person dies before this age, the insurance policy is paid out. However, there can be no claim if they live past the age of 65.

Life and endowment insurance — this combines two different types of insurance. If the selected **maturity** time for the policy is when the insured reaches the age of 65, then if the person dies before this age, the policy pay out is made to his/her estate. However, if the person survives past the age of 65 years, the sum assured is paid out to him/her.

Other Types Of Insurance Policies

Superannuation

This type of insurance is a way of saving for your retirement. If the person insured lives past a certain age, a lump sum is paid out or they can receive this in regular payments. Most superannuation schemes include life insurance, so if the person dies before the maturity date, the value of the superannuation at that time is paid to the person's estate.

The government of Samoa provides a superannuation scheme which all government employees pay into through the National Provident Fund.

Medical insurance

Consumers pay regular premiums to their insurance companies which cover the cost of doctors' fees, surgery costs, hospital costs, funeral expenses and other medical expenses, depending on what is included in the policy.

Accident Compensation Corporation (ACC)

Employers and the government make contributions to this fund so that employees can receive a percentage of their earning if they are not able to work because of a work or accident-related injury. Costs for medical care may also be reimbursed. The government pays a percentage of taxes or costs on things such as petrol, vehicle registration fees or licence fees to help pay for ACC.

Property insurance

Home and contents can be insured against damage, fire or natural disasters. Houseowners Policies cover the cost of buildings and Householders Policies cover damage to contents of buildings: *e.g. Jewellery, carpets, furniture and household appliances.*

Motor vehicle

This type of insurance covers damage and theft of motor vehicles. Like property insurance, motor vehicle insurance has an excess which means that the insurance company will only cover the amount of loss above an agreed amount. Customers fund the uninsured portion in the event of a claim.

Amosa takes out vehicle insurance for his taxi. The policy has an excess of \$500. This means that should Amosa have an accident and damage his car, the insurance company will only cover the cost of the repairs over and above \$500. So if the cost to repair the vehicle is \$3600, then Amosa will have to pay the first \$500 and the insurance company will pay \$3100.

Travel insurance

Travel insurance is taken out by consumers who travel to cover such things as lost or damaged luggage, flight cancellations and illness or medical cost coverage while overseas.

Insurance Brokers

Usually consumers will arrange their own insurance policies. However, in some cases, it may be more convenient to use a **broker** to make arrangements for insurance, particularly if the person wants to establish a range of policies. A broker is a middle-person who obtains insurance business from consumers or producers and passes it on to insurance companies. A broker will have an in-depth knowledge of different types of insurance policies and can be a good source of advice.

Activity 1**Understanding Insurance**

- Copy and complete the following in your exercise book.
1. Name and describe the different types of life assurance policies that a consumer is able to take out.
 2. “I don’t know how insurance companies make their money. I had only made six premium payments of \$100 before I crashed my car and my insurance company paid \$3800 for repairs. This means that they made a loss of \$3200.” Explain to your friend who made this statement how insurance works and how insurance companies make their money.
 3. When a disaster occurs, such as the terrorist attack in New York in 2001, a lot of insurance companies went bankrupt. Explain why this could happen.
 4. Why should a consumer or producer use the services of a broker?

Insurance And Fa’asāmoa

Insurance has not been part of the economy of Samoa for very long. One of the reasons for this (apart from the extra cost) is that Samoan culture and tradition (aganu’u) determines that the extended family become involved and make contributions when events or circumstances affect members of their family. The Samoan culture provides its own insurance policies!

Case study — Amosa has had his life insurance policy for over five years when disaster strikes. Amosa has kept up his premium payments but he is finding it very hard to make ends meet. One day, while very drunk, Amosa decides that he will end his life so that his wife can get the lump sum payment for the life assurance policy. Amosa does this and his wife is devastated. Not only has she lost her husband, but she is told that because Amosa took his own life, the insurance company will not pay out on his policy. This was a condition on the life assurance policy. Amosa's family come together to make contributions for his funeral arrangements. Family and friends contribute enough money and food to cover the costs as well as leave a little over for Tiana.

Activity 2

Insurance In Samoa

- Copy and complete the following in your exercise book.
- 1. Discuss the following statement, giving some examples to illustrate your comments:

'Fa'āsāmoa ensures that people of Samoa will never require insurance policies.'

- 2. Some possessions such as health cannot be replaced but money can be used to make up for their loss. Make a list of how insurance money can be used to make up for the loss of good health.

KEY VOCABULARY

Key vocabulary for Year 11 Book 1 Business Studies

Vocabulary	Useful words that go with the key word	Other words
accounted	accounted for	
acquire		
assets	personal assets	
audit		audited auditors
capital	capital intensive	
centralised	centralised control, decentralised control	decentralised
a commodity	the main export commodity	
a company	a public company, a private company an unlisted company, a listed company, a public limited liability company	
consumer	consumer preferences, consumer income	
cope	cope with	
corporatisation		corporatised
cost	accounting cost, opportunity cost, economic cost	
delegated	responsibility is delegated to . . .	
demand	the demand for . . . consumer demand, demand curve, demand schedule, Law of Demand, increase in demand, decrease in demand	
	the quantity demanded, an increase in quantity demanded, a decrease in quantity demanded	demand
distribution	method of distribution	
economic	economic activities, economic decisions; economic choices, non-economic choices; a planned economy, a mixed economy	Economics economy
ensure		
enterprise	private enterprise, State owned enterprises, non-profit making enterprises	
factor	factors of production, non-price factors, a factor reward, factor mix	
flow	a circular flow, the flow of goods and services	
a good	a normal good, an inferior good, a better quality good, substitute goods, complementary goods	goods
Government	Government controls, Government policies and strategies, Government intervention, Government control	
income	income levels, consumer income levels, the disposable income	
interrelationship	the interrelationship between	
labour	labour intensive, division of labour	
legal	a separate legal entity, a separate legal identity, legal responsibilities, legal formalities	
liability	limited liability, unlimited liability, shareholders' liability, personally liable for the debts . . .	liable
limited	limited resources, limited income	
maintained		
management	Business Management, poor management, joint management decisions, management structures	mismanagement
market	a free market, the goods and services market, the resources market, the money market, the foreign exchange market, market research, market-orientated business, marketing the goods	marketing

Key vocabulary for Year 11 Book 1 Business Studies

Vocabulary	Useful words that go with the key word	Other words
to maximise	to maximise profits, to maximise profitability	
to minimise	to minimise or avoid mistakes, to minimise losses	
option	a particular option, the options available	
organisations	business organisations, government organisations, non-profit organisations, a flat organisational structure	organisational
participate	participate in	
partner	a business partner, a sleeping partner, a partnership agreement	a partnership
privatisation		privatised
production	the factors of production	
profits	to maximise profits, a profit margin, to maximise profitability	profit, profitability
resource	capital resource, human resource, scarce resources, limited resources, (non-) renewable resources	resources
sector	sectors of the Economy, the private sector, the primary sector, the secondary sector, the tertiary sector	
specialise		specialisation
supply	The Law of Supply, a supply schedule, a supply curve, determinants of supply, the availability of supplies, the preferred supplier	supplies, supplier
sustain	is able to sustain	
taxes	direct taxes, indirect taxes, personal income tax, income tax rates, excise tax	tax
terms	terms of purchase, lending terms	

Topic specific vocabulary for Year 11 Book 1 Business Studies

Related to Business Organisations in the Samoan Economy an entrepreneur entrepreneurship a sole trader the shareholders dividends a Board of Directors a prospectus a monopoly revenue for voluntary membership	Related to Business Management fraud advertising shipping schedules air-freight Articles of Association Proxy specialisation of skills the operational decisions	Related to Business Operations in the Market Place Gross Domestic Product (GDP) manufacturers service industries middle people the wholesaler mark-up importer's mark-up retailer's mark-up	Related to Supply of Goods and Services Ceteris paribus
Related to Consumption of Goods and Services priorities core beliefs principles decision making scarcity user pays	Related to Demand for Goods and Services take home pay purchasing power	Related to Rights and Obligations of Consumers and Producers regulations to rely on interdependent financial institutions rates for lending	

Useful structures for Year 11 Book 1 Business Studies

Ways of defining things

Consumer demand is the quantity of goods or services consumers are to buy at various prices at a certain time. Values are core beliefs.

Ways of giving examples

The goods and services provided by the government are usually non-profit activities such as health and education. Consumer preferences are also influenced by events, such as White Sunday, Valentines Day and Teuila Festival. There are many reasons why individuals start up their own businesses. These include the . . .
Examples of primary sector producers include farming, mining of minerals, growing fruit, vegetables or trees and fishing.

Ways of categorizing

Business organisations can be categorised according to whether they are profit making or non-profit making or by the type of ownership.
The different types of organisations involved in production include Private Enterprise, Government Organisations and Non-profit Organisations.

Ways of expressing cause and effect

If a product can be sold at a higher price there is a greater chance that it is earning more profit.
As the price increases, demand for the goods or services will decrease.
As these preferences change, this affects the demand for the product.
When there is a change in demand due to factors other than price, the whole demand curve shifts to the left or the right.
If a product becomes less popular, consumers demand less of the product at the same price.
If an individual's income changes, this has an effect on the demand.
Demand can change when the price of the goods or services increases or decreases.

Expressing factors

Price is the main factor which affects demand.
There are factors other than price that can affect consumer demand. These are . . .

Linked nouns

goods and services
needs and wants
the pros and cons (advantages and disadvantages)
willing and able
consumers and producers
for sale or tender

