**COMMERCE SS 1**

**THIRD TERM**

**SCHEME OF WORK**

**WEEKS TOPICS**

1 Business Organizations – Sole Proprietorship

2 Partnership

3 Partnership

4 Money

5 Central Bank

6 Commercial Bank

7-8 The Cheque System

9 Negotiable Instruments – Bills of Exchange etc.

10 Other Financial Institutions

11 Revision

**WEEK 1**

**TOPIC: FORMS OF BUSINESS UNITS**

**CONTENTS**

1. Definition
2. Types (forms) of business units
3. Sole proprietorship

**FORMS OF BUSINESS UNITS**

Business Units: Private and Public Enterprises

Business units can be broadly categorized into two classes: the private sector or private enterprise and the public sector or public enterprise. The private sector comprises all businesses owned and operated by private individuals, while the public sector includes enterprises owned and controlled by the government.

Within the private sector, there are five primary forms of business units:

1. Sole Proprietorship (Sole Trader or One-man Business)

2. Partnership

3. Private Limited Liability Company

4. Public Limited Liability Company

5. Co-operative Society

Public enterprises, also referred to as Public Corporations or Statutory Corporations, are government-owned, controlled, and funded.

**Factors Influencing the Choice of Business Unit Form**

1. Capital Availability: The amount of capital accessible for starting the business plays a significant role in determining the business unit form.

2. Personal Skills and Experience: The entrepreneur's skills and expertise can influence the choice of business unit.

3. Nature of the Business: The type of business, its industry, and sector can dictate the most suitable business unit form.

4. Market Size and Demand: The extent of the market and demand for the business's products or services is a critical factor.

5. Risk Level: The degree of risk and uncertainty involved in the business is considered.

6. Entrepreneur's Motivation: The personal interest, motive, and objectives of the entrepreneur are taken into account.

7. Government Policies: Economic, legal, social, and industrial policies of the government can affect the choice of business unit form.

**Sole Proprietorship**

Sole proprietorship is a type of business established and controlled by a single individual who provides all the capital. In this form, one person supplies the capital, bears the risks, and assumes full responsibility for the business.

**Characteristics of Sole Proprietorship**

1. Ownership, Management, and Control: Sole proprietorship is owned, managed, and controlled by a single individual.

2. Unlimited Liability: The owner's liability is unlimited and extends to their private assets.

3. Not a Legal Entity: Legally, the business is not separate from the owner; it lacks a distinct legal identity.

4. Lack of Perpetual Existence: Sole proprietorships do not have continuity, and the business may cease upon the owner's death or retirement.

5. Capital Supplied by the Owner: The owner provides the capital for the business.

6. Risk Borne by the Owner: All risks are borne solely by the owner.

7. Informal Formation: Sole proprietorships often have no formal procedures for establishment, except in specific sectors requiring licenses.

8. Profits for the Owner: The owner enjoys all the profits individually.

9. Common in Small Businesses: This form is common in small retail businesses and artisanal trades.

10. Profit Motive: The primary motive for its formation is profit generation.

Advantages of Sole Proprietorship

1. Ease of Setup: Sole proprietorship is easy to establish.

2. Low Capital Requirements: It usually requires minimal capital.

3. Ease of Management: Management is straightforward and efficient.

4. Quick Decision Making: The owner can make rapid business decisions.

5. Operational Flexibility: The business operations are flexible.

6. Individual Profit Enjoyment: The owner reaps all the profits.

7. Privacy: The owner enjoys privacy in business activities.

8. Pride of Ownership: There is a sense of pride in ownership and independence.

9. Good Relations: Close and cordial relationships are maintained with employees and customers.

**Disadvantages of Sole Proprietorship**

1. Limited Capital: Difficulty in raising sufficient capital is a limitation.

2. Unlimited Liability: The owner's unlimited liability can pose financial risks.

3. Not a Legal Entity: The business lacks a separate legal identity.

4. Risk Bearing: All risks and losses are borne by the owner.

5. Limited Expansion: Expansion opportunities may be constrained due to small size.

6. Lack of Continuity: Business continuity is interrupted by the owner's retirement or death.

7. Limited Decision Scope: The scope for decision-making and policy implementation may be restricted.

8. Competitive Challenges: Small size may make it challenging to compete with larger businesses.

9. Personal Sacrifices: Owners may lack holidays, leave, or retirement periods.

**Sources of Capital for a Sole Proprietorship**

1. Personal Savings of the Owner

2. Loans from Friends and Relatives

3. Bank Loans and Overdrafts

4. Trade Credits (Credit Purchases)

5. Retained Profits (Ploughed-Back Profits)

6. Grants from Friends and Relations

7. Government Grants or Loans (e.g., NAPEP, NDE)

8. Other Credit Facilities (e.g., Hire Purchase)

Review Questions

1. Explain five characteristics of sole proprietorship.

2. Describe four sources of capital available to a sole proprietorship business.

**WEEKEND ASSIGNMENT**

1. A person who runs a business on his own account is called a (a) Creditor (b) customer (c) partner (d) sole trader
2. In a sole proprietorship business, start-up capital is sourced mainly through (a) loans from banks (b) personal savings of the owner (c) public appeal for fund (d) help from friends
3. Which of the following is NOT a feature of a sole proprietorship business (a) it has continuity (b) there is rapid decision making (c) it enjoys privacy (d) small initial capital is required
4. In which service will a sole trader NOT be found (a) Business consultant (b) Electrician (c) National Electric Power Authority (d) Decorator
5. Which of the following is a source of capital to a sole proprietor (a) Savings (b) Bonds (c) Savings (d) Debentures

**THEORY**

1. Mention five factors that will determine the form a business unit will take
2. State two imitations that a sole trader is likely to meet as his business continues to expand

**GENERAL EVALUATION QUESTIONS**

1. Explain five activities involved in Commerce
2. Explain five advantages of home trade over foreign trade
3. Explain five factors affecting the choice of transport of frozen products
4. State five advantages of air transport
5. With the aid of diagrams, show five examples of channel of distribution

**WEEK TWO**

**TOPIC: PARTNERSHIP**

**CONTENTS**

1. Definition, features, advantages and disadvantages
2. Business conditions suitable for partnership
3. Formation formalities, documentations
4. Rights of partners
5. Sources of finance
6. Dissolution of partnership

**PARTNERSHIP**

A partnership is defined as the relationship that exists between two or more (but more than twenty) persons carrying on a business in common for the purpose of making profits.

A partnership is the relationship that exist when two or more persons contribute skill, moneys’ worth in order to establish, own and manage business organization with the sole aim of making profit.

**CONDITIONS SUITABLE FOR THE FORMATION OF PARTNERSHIP**

1. Partnership is suitable for executing short term venture
2. Partnership is suitable where the ownership and control should not be extended outside the family or friends
3. Partnership is suitable where the success of the business requires the skill or knowledge of experience members of the partnership e.g. solicitors
4. Partnership is suitable where large amount of capital is not necessary for a business as in a limited liability company.
5. Partnership is suitable where the partners have contractual capacity

**FORMATION OF PARTNERSHIP**

A partnership may be established without any special formalities. However a written agreement called a partnership deed is usually drawn up.

**PARTNERSHIP DEED**: This is written agreement entered into by partners of a partnership business. It is a document which states the agreements, rules and regulations that guide the conduct of a partnership business.

**CONTENTS OF THE PARTNERSHIP DEED**

1. Name of the firm (i.e. name of the partnership business)
2. Name of the partners
3. Nature of the business of the firm
4. The capital of the firm and the amount to be contributed by each of the partners
5. How profits and losses are to be shared
6. Duration of the partnership
7. The circumstances which shall dissolve the partnership
8. Procedure for dissolution
9. Procedure for admitting new partners
10. The methods of settling disputes, if any etc.

**PARTNERSHIP AT WILL:** This refers to where no fixed term or period has been agreed upon for the duration of the partnership.

**FEATURES OF CHARACTERISTICS OF PARTNERSHIP**

1. It is owned by two to twenty person (partners)
2. The initial capital is contributed by the partners
3. Profits and losses are shared by the partners
4. Unlimited liability i.e. the liability of the partners is unlimited
5. It is not a legal entity: It therefore cannot sue or be sued in its own name
6. No special formalities is required in its formation
7. Partners are agents of the firm
8. The motive of its formation is to make profit
9. Partners participate in management of the firm

**ADVANTAGES OF PARTNERSHIP**

1. Increased capital: More capital is made available as more persons have to contribute together
2. Joint and better decisions are taken
3. Sharing of risks and liabilities among partners
4. It is easy to form – no legal formalities required in its formation
5. There is specialization in management/application of division of labour
6. There is privacy: as the partners are not legally required to publish the annual account for public consumption
7. It can withstand competition
8. Partners have more room for holidays, sick leave and rests
9. Greater scope for expansion than a sole proprietorship

**DISADVANTAGES OF PARTNERSHIP**

1. Unlimited Liability: The partners are liable for the debts of the business even to the extent of their private property
2. Inability to raise sufficient capital
3. It is not a legal entity
4. Action of one partner is binding on other partners and on the firm i.e. partner an agent of the firm
5. Disagreement between partners can end the business
6. Pride of ownership diminishes
7. Lack of continuity: The death or retirement of one partner leads to the dissolution of business
8. Profits are shared
9. It is show in decision/policy making – as a result of need for consultations among partners

**REVIEW QUESTIONS**

Akanni and Bello are sole proprietors. Akanni proposed that their business be merged to form a partnership

1. Explain to Bello how such a partnership would be to their mutual benefit

2. State five reasons why Bello might be reluctant to accept the proposal

**RIGHTS OF PARTNERS**

1. Rights to share from the profits of the partnership business
2. Right to take part in the management of the partnership business
3. Right to have access to, inspect and copy the books of account of the business
4. Indemnity: Right to be reimbursed for expenses or losses incurred on behalf of the business
5. Right to act as the agent of the business
6. A partner making advance beyond the amount of capital which he has agreed to subscribe is entitled to interest of 5% per annum from the date of the advance.

**SOURCES OF CAPITAL/FINANCE FOR A PATNERSHIP**

1. Personal contributions of the partners
2. Loans from partners
3. Loans and overdrafts from banks
4. Trade credits i.e. credit purchase
5. Retained profits (ploughed-back profits)
6. Other credit facilities e.g. hire purchase, leasing etc.
7. Grants/loans from government agencies e.g. NAPEP, NDE

**DISSOLUTION OF PARTNERSHIP**

1. This means bringing the existence of the partnership business to an end. A partnership may be dissolved due to any of the following reasons.
2. The expiration of the term or period fixed for the partnership business
3. The death of a partner
4. The bankruptcy of a partner
5. Through the mutual consent of all the partners
6. If the partnership business becomes insolvent
7. The happening of an event which causes the partnership to become illegal
8. The insanity of a partner
9. When one partner gives notice to the other of his intention to dissolve the firm
10. On the order of the court
11. The completion of the venture/project or undertaking, when a single venture was the purpose of the partnership

**REVIEW QUESTIONS**

1. What four conditions are necessary for the dissolution of partnership.
2. State five rights of a partner in a partnership business.

**WEEKEND ASSIGNMENT**

1. A partnership business will not raise capital through (a) contributions (b) credit purchases (c) debentures (d) retained earnings

2. In a partnership business, start-up capital is sourced mainly through (a) loans from bank (b) contributions by members (c) public appeal for fund (d) help from friends

3. In partnership business, the maximum number of person for its formation is

(a) 5 (b) 10 (c) 2 (d) 25

4. Profit in partnership is shared according to (a) amount contributed by each partner (b) agreement in the deed (c) number of hours put in by each partner (d) seniority of partner (e) types of partners

5. The partnership agreement contains the (a) duration of the partnership if known (b) goodwill and credibility of the partners (c) relationship among the partners and customers (d) size of the partnership

**THEORY**

1. Give any five reasons why sole traders come together to form partnership
2. Give three rights of a partner

**GENERAL EVALUATION QUESTIONS**

* 1. Explain five examples of industrial occupation
  2. State five uses of capital as a factor of production
  3. List five features of a partnership business
  4. State six functions of an entrepreneur
  5. Explain six functions of Commerce in an economy

**WEEK 3**

**TOPIC: PARTNERSHIP**

**CONTENTS**

1. Types of Partnership – features
2. Types of ordinary partners
3. Demerits of a limited partner

**TYPES OF PARTNERSHIP**

There are two main types of partnership business namely:

1. Ordinary Partnership (or General partnership)
2. The Limited Partnership

**THE ORDINARY PARTNERSHIP (GENERAL PARTNERSHIP)**

Characteristics or features:

1. Membership/Number of partners: May consist of between 2 to 20 persons. However by the companies Act 1967 this restriction of not more than 20 persons no longer applies to solicitors accountants, jobbers and brokers
2. Formation: No special formality such as registration is required to form an ordinary partnership
3. Capital / finance: Obtained through money contributed by partners. Some partners may contribute more money than others
4. Liability of partners: partners have unlimited liability
5. Profits are shared or distributed according to agreement in the deed
6. Powers of partners: Every member of an ordinary partnership is the agent of the other partners for the purpose of carrying on the partnership business. All partners are bound by the actions of one of the partners acting within the scope of that business
7. Management / control: All partners participate in the management of the business
8. Legal status: It is not a separate legal entity
9. Existence/dissolution: An ordinary partnership is automatically dissolved by the death, bankruptcy or insanity of a partner

**TYPES OF ORDINARY PARTNERS**

1. Active partner: This is a partner who takes active part in the management and administration of a partnership business. He shares the profit and losses with other partner
2. Sleeping or Dormant Partner: A dormant partner contributes capital and shares from the profit or losses but takes no part in the management (i.e. day to day running) of firm or business
3. Nominal or Quasi Partner: The nominal partner is the one who merely allows his name to be used as a partner in the business. He does not contribute any capital to the business nor take part in the management of the firm. He also does not share in the profits or losses of the business. He is usually a prominent person whose name is just added to the list of partners to enhance the goodwill and the image of the partnership business concerned.

**REVIEW QUESTIONS**

1. Write Short notes on the following: (a) General partners (b) Sleeping partners
2. List five characteristics of ordinary partnership.

**THE LIMITED PARTNERSHIP**

Characteristics or features:

1. Membership/Number of partners – same as for ordinary partnership
2. Formation: A limited partnership must be registered with the Corporate Affairs Commission, otherwise every limited partner will be liable as a general partner.
3. Capital / finance: As contributed by partners
4. Liability of partners: In the event of a bankruptcy (or debt), the limited partners lose only the capital contributed, which means their personal belongings will not be affected. In other words, the liability of the limited partners is limited to the amount of capital contributed by them. However, there must be at least one general (or ordinary) partner who will have unlimited liability
5. Profits are shared among members both general (or ordinary), and limited partners according to agreement in the deed.
6. Powers of limited partner: The limited partners cannot bind the firm in any trading contract. NB: On the other hand, however, any action of the general partners are binding on all the other members.
7. Management / Control: The Limited Partners cannot take part in the management of the business. He can however inspect the firm’s books of account and may offer advice.
8. Legal status: A limited partnership is not a separate entity
9. Existence / dissolution – A limited partnership is automatically dissolved by the death, bankruptcy or insanity of a partner
10. Withdrawal of capital: The limited partner cannot withdraw his capital without the consent of the other partners.

**DEMERITS OR LIMITATIONS OF A LIMITED PARTNER**

1. He must not take part in the management of the firm
2. He must be registered with the Registrar, Corporate Affairs Commission
3. He has no power to make binding contract on behalf of the firm.
4. New partners can be admitted without his consent
5. He cannot get back the capital he has invested in the firm without the consent of the other partners

**REVIEW QUESTIONS**

1. State FIVE similarities and FIVE differences between ordinary partnership and limited partnership

2. List five limitations of a limited partner in a partnership business.

**WEEKEND ASSIGNMENT**

1. Which of the following is not needed for the partnership business to be dissolved (a) Termination of venture (b) Mutual consent of the partners (c) Order from the Registrar of Companies (d) Expiration of the partnership deed
2. Which body of people has NOT been granted an exception to have as many partners as necessary by the Company’s Act of 1967 (a) Accountants (b) Bankers (c) brokers (d) Solicitors
3. What is NOT a source of capital for a business (a) Borrowing from somewhere (b) Personal savings (c) Retained profits (d) Collection of Tax
4. The minimum and maximum numbers of people to form a limited partnership is (a) 1 to 50 (b) 1 to 20 (c) 2 to 50 (d) 2 to 20
5. Which of the following firms can have more than 20 partners (a) carpentry (b) tailoring (c) solicitors (d) artists

**THEORY**

1. Explain the special advantages accruing to a limited partner in a partnership business
2. Write short notes on the following (a) Active partner (b) Quasi partner

**GENERAL EVALUATION QUESTIONS**

1. Explain six functions of wholesalers to manufacturers
2. State seven facilities a good seaport should have
3. Identify three advantages and two disadvantages of automatic vending
4. State five reasons why countries restrict foreign trade
5. List and explain five problems associated with international trade

**WEEK 4**

**TOPIC: MONEY**

**CONTENTS:**

1. Definition of trade by barter.

2. Problems of trade by barter.

3. Characteristics/Qualities of Money.

4. Functions of Money.

5. Counter trade: Meaning, advantages etc.

**TRADE BY BARTER**

Before money came to be used, trade was carried out by goods being exchanged directly for other goods. This direct exchange of goods for goods is known as barter.

Trade by barter is a form of trading in which goods are exchanged directly for other goods without the use of money as medium of exchange

**Problems of Trade By Barter, .i.e. Why Barter was replaced by the use of Money**

i. The Problem of double co-incidence of wants

ii. No fixed rate of exchange and no common standard of value. This leads to difficulty in assessing the value of commodities.

iii. The problem of storing goods especially perishable gods. i.e. the problems of savings

iv. Indivisibility of goods: Goods which were not perfectly divisible made exchange difficult, especially exchange with smaller units of goods.

v. No standard for deferred payment. This makes is absolutely impossible to pay back with items of equal size, quantity or quality as the one borrowed.

vi. It leads to waste of time and human effort e.g. time and energy wasted to search for somebody to exchange one’s goods with.

Vii. It limits specialization of labour: Trade by barter encourages self-sufficiency, hence it limits specialization of labour.

viii. There is much haggling and cheating.

ix. It does not encourage installment payment

**MONEY**

Money is anything which is generally acceptable as a medium of exchange for making payments and for settlement of debts in a given economy.

**CHARACTERISTICS OF MONEY/QUALITIES OF MONEY**

Or Qualities of a good medium of exchange

**1. Acceptability:-** It must be generally acceptable by members of the community as a medium of exchange.

**2. Portability:-** It must be easy to carry about

**3. Durability:-** It must be something that can be kept for a fairly long time without going bad i.e. it must withstand wear and tear

**4. Scarcity:-** It must be relatively scarce (i.e. not too common)

**5. Homogeneity:-** It denominations must be uniform or be the same i.e. one N50 note must be exactly identical to another N50 note.

6. **Divisibility:-** Money must be easily divisible into smaller units of various denominations e.g. N500, N200, N100, N50, N20, N10, N5 etc.

7. **Recognazability:-** It must be easy to recognize.

8. **Stability in value:-** Its value must be relatively stable and not prone to fluctuations.

9. **Security:-** There must be security marks on money so that it would be difficult to imitate.

10. **Economy:-** The cost of producing and maintaining it must not be too high.

**FUNCTIONS OF MONEY**

The introduction of money has solved the problems encountered in trade by barter. This was possible because money performs the following functions.

1. **Medium of Exchange:** Money serves as a medium through which people can exchange goods and services. This enables it to solves the main problem of barter which is double coincidence of wants.

2. **Measure of Value:-** Money enable us to measure and compare the worth /quality of goods and services.

3. **Store of Value:-** Money is the best form of holding surplus or wealth overtime. It can be kept for a relatively long time though its value falls during inflation.

4. **Unit of Account:-** Money makes the calculation and recording of the values of goods and services bought and sold to be very convenient.

5. **Standard for deferred payments:-** Money enables payments for goods and services to be postponed till a later date. This function is very important in modern times when most business transactions are based on credits.

**FORMS OF MONEY**

**1. Legal tender:-**This is any means of payment or forms of money that is backed by law in a given country and which a trader is compelled by law of the country to accept in settlement of debt.

**2. Quasi Money of Near Money:-** These are documents that can be easily converted to cash e.g. cheques, postal order, money order etc.

**COUNTER TRADE**

Counter trade is barter on the international trade level. It is simply the process whereby goods and services are exchanged between countries without the use of money as a means of exchange. A country engaged in counter trade will therefore exchange its goods not for money but for goods which are provided by the other country with which it is trading.

**ADVANTAGES OF COUNTER TRADE**

1. It facilitates the transfer or exchange of technology

2. It encourages closer economic and political co-operation between countries.

3. It can be used to reduce a country’s stock of external debts

4. It serves to conserve the foreign exchange reserves of participating countries.

5. It is a particularly useful where the goods being exchanged are subject to production quotas imposed by a cartel e.g. **OPEC**.

6. It is useful in developing the infrastructure of a developing economy especially where the foreign contractor involved is willing to take goods in payment for contracts executed.

7. It can be used where a country is facing economic sanctions e.g. loan freeze or freezing of its assets by international financial institutions. It ensures that the country being sanctioned still continues to import goods by barter.

**REVIEW QUESTIONS**

1. Why has barter largely been replaced by the use of money in your country.

2. Discuss the special characteristics that distinguish money from other economics goods.

**WEEKEND ASSIGNMENT**

1. Direct exchange of goods between two countries is known as (a) Counter trade (b) Entrepot trade (c) Barter trade (d) Multi-lateral trade

2. Which of the following means of selling debt is a legal tender (a) Bank note (b) Cheque (c) Money order (d) Postal order.

3. Which of the following makes currency note a legal tender (a) Scarcity (b) Homogeneity (c) Durability (d) Acceptability

4. A cheque is not a legal tender because it is (a) Not transferable (b) Only a representation of money (c) Not mandatory to a creditor to accept it (d) Should be paid into a bank account.

5. Which feature of money facilitates small transactions (a) Divisibility (b) Durability (c) Reconcilability (d) Scarcity

**THEORY**

1. Define the term “Trade by Barter”

2. List five qualities of money

**GENERAL EVALUATION QUESTIONS**

1. State the difference between an ordinary invoice and a proforma invoice
2. State three features of tramp vessels and features of ocean liners
3. Give five reasons why a manufacturer may brand his products
4. List five sources of capital available to a partnership business
5. Explain five factors that encourage the elimination of middlemen from the channel of distribution

**WEEK 5**

**TOPIC: CENTRAL BANK**

**CONTENTS**

1. Features/characteristics of the Central Bank

2. Functions of the Central Bank

3. Monetary Policy

4. Instruments of Monetary Policy

**CENTRAL BANK**

The Central Bank is the apex financial institution in a country which is responsible for the management and control of monetary affairs of the country.

**FEATURES/CHARACTERISTICS OF THE CENTRAL BANK**

1. It is owned by the government

2. It is established through Act of Parliament

3. It is the apex financial institution in a country.

4. There is only one Central Bank in the country

5. It is not a profit oriented institution

6. It does not transact business with individuals

7. It is the only bank authorized by law to issue currencies.

**FUNCTIONS OF THE CENTRAL BANK**

1. Issuing of currency .i.e. Bank notes and coins

2. It serves as bankers to the government

3. It act as banker to the banks i.e. it is a banker to commercial banks

4. It acts as a lender of last resort. When commercial banks are faced with difficult financial problem, they can raise loans from the Central Bank as the last resort.

5. It control the foreign exchange reserve.

6. It acts as the clearing house for bank; banks come to the Central Bank for settlement of inter bank debts.

7. Management of the national debt. This includes the documentation as well as servicing of the debts.

8. It implements (carry out) government monetary policies.

9. It advices both the government and the commercial banks.

10. It maintains close contact with other International Financial Institutions e.g. IMF

**MONETARY POLICY:** Monetary Policy is mainly concerned with varying the money supply in the economy. The Central Bank uses some measures like the bank rate, open market operations, special deposits, directives, cash ratio etc to regulate the volume of money in the economy, thereby checking inflation or deflation when necessary.

**Instruments of Monetary Policy/or How The Central Bank Control the Commercial Banks.**

1. **Bank Rate:-** This is simply the rate of interest at which the Central Bank lends money to commercial banks and rediscount their bills. All other interest rates charged by banks on loans and overdraft depend on the Bank Rate. It is also called the Rediscount Rate. The Bank Rate is raised or lowered to reduce or increase lending capacity of the commercial Banks and by extension control the money supply in the economy.

2. **Open Market Operations:-** This involves buying and selling of securities (e.g. Treasury Bills) from and to commercial banks to reduce or increase the quantity of money in circulation.

3. **Liquidity Ratio or Cash Reserve Ratio:-** The commercial banks are mandated by the CBN to keep a specific proportion of their total deposit with the CBN as cash assets to meet customers demand. This percentage (presently 20%) can be raised or lowered to reduce or increase the amount available for lending by the banks to their customers – thereby regulating the money supply.

4. **Special Deposits: -** This is an instruction to the commercial banks to keep with the Central Bank special deposits over and above their statutory requirements thereby curtailing the ability of the commercial banks to create credit.

5. **Special Directives: -** These are special instructions which the Central Bank uses to decide which direction the lending policies of commercial banks and other financial institutions should follow.

6. **Moral Suasion: -** This is a gentle appeal to commercial banks to adopt appropriate policies in order to contract/expand money supply. It is done through persuasion based on moral grounds not with the use of force of law by the Central Bank.

**REVIEW QUESTIONS**

1. State four features of the Central Bank

2. What is monetary policy

3. Explain the meaning of the monetary policy instrument – Open market operations.

**WEEKEND ASSIGNMENT**

1. Which of the following services is rendered by Central Bank (a) Provision of brokerage services (b) Safe keeping of cash and other valuables (c) Discounting bills of exchange (d) Issuing currency notes

2. Which is the banker of all commercial banks in the country (a) CBN (b) FMBN (c) BOI (d) UBA

3. Which of the following is NOT a function of the Central Bank (a) Bankers bank (b) Government bank (c) Printing of currency (d) Servicing of national debt

4. What is NOT a means of Central Bank’s controlling the credit policy of commercial banks (a) Banker’s bank (b) Bank rate (c) Funding operations (d) Open market operations

5. When the Central Bank increases the bank rate its aim is to (a) Reduce the volume of public borrowing (b) Increase government revenue (c) Encourage bank to lend only to government (d) Discourage the public from saving.

**THEORY**

1. Give two functions of the Central Bank

2. List four monetary policy instruments used by the CBN to regulate the supply of money in the economy.

**GENERAL EVALUATION QUESTIONS**

1. Give six reasons why retail shops adopt self service
2. Explain six facilities a retail shop should have to encourage self service
3. Explain five measures taken by a country to promote exports
4. List seven contents of a bill of lading
5. State seven distinguishing features of a mail order business

**WEEK 6**

**TOPIC: COMMERCIAL BANKS**

**CONTENTS**

1. Definition and features of commercial banks

2. Functions of Commercial banks

3. Types of bank accounts and their features

4. Procedures for collecting advances from banks etc

**COMMERCIAL BANKS**

A commercial bank is a financial institution which accept deposits and other valuables from the public for safe-keeping lend money to people and firms and perform other auxiliary services with the sole aim of making profit.

A commercial bank is owned by private individual organizations or government. It is a limited liability company.

**CHARACTERISTICS OF COMMERCIAL BANKS**

1. They are limited liability companies

2. They are established and owned by individuals, organizations or governments.

3. The motive for its establishment is profit making

4. Commercial banks are incorporated under CAMA (1990)

5. They transact business with private individuals organizations and governments

6. They are members of the money market

**FUNCTIONS OF COMMERCIAL BANKS**

a. Accepting deposits from customers

b. Lending to customers - .i.e. they grant loans and overdrafts to their customers

c. Acting as an agent for payment

d. Discounting bills of exchange

e. Safekeeping of valuables e.g. wills, jewelleries, certificates etc.

f. Offering advise to customers

g. Acting as executors or trustees

h. Acting as referees/granting of performance bonds

i. Issuing, buying and selling of securities e.g. shares

j. Issuing of letter of credit

k. Acceptance and discounting of bills of exchange

l. Buying and selling of foreign currencies

m. Funds transfers e.g. credit transfer services

n. Lending money to importers and exporters

o. Issuance of travelers cheques

p. Acting as agents to both importers and exporters.

q. Transfer and handling of vitals business documents

**TYPES OF BANK ACCOUNTS**

There are three types of accounts which customers can open in a bank. These are:

**1. Current Account:** This is an account on which cheques are drawn. It is also called Demand Deposit.

**Features of Current Account.**

a. Money can be withdrawn at anytime without notice to the bank.

b. Money can be withdrawn as many times as possible in a month.

c. Withdrawals are made through cheques

d. Deposits are made through pay in – slip or tellers.

e. The bank issue bank statement (statement of account) periodically to the customer.

f. No interest is paid to current account holder

g. The bank charges some commission for services rendered to customers. This is called commission on turnover **(COT).**

h. Other people can withdraw money from the account on behalf of the customers.

**2. Saving Account: -** This account is opened by low income earners who are small savers.

**Features of Saving Accounts**

a. Money can only be withdrawn occasionally

b. The bank pays interest to the account holder

c. Holders are issued with pass books

d. Only the account holder can withdrawn from the account

**3. Fixed Deposit Account (Time Deposits):-** Here, money is saved in the bank for a specific period of time to earn interest. Holders are entitled to higher interest than savings account. The bank issues a receipt or deposits account passbook and also pays interest to the owners. The bank must be given between seven to fourteen days notice before money can be withdrawn.

**PROCEDURES FOR OPENING A CURRENT ACCOUNT**

1. The customer will collect and fill an application form.

2. Two referees, who are customers of banks must be provided to recommend the applicant.

3. Two referees, who are customers of banks must be provided to recommend the applicant.

4. The customer will submit his complete particulars (information) to the bank showing his personal details – this is to enable the bank to authenticate his identity.

5. The bank will issue him with a pay – in – slip booklet.

6. He will be issued an account number.

7. He will pay in an initial deposits

8. A cheque book will be given to him

**BANK ADVANCES (COMMERCIAL BANKS CREDIT FACILITIES)**

Bank advances may be made by way of

a. Loans

b. Overdrafts

c. Discounting of bills of exchange

In the above instances, a bank will usually advances the money only against security or collateral.

**CHARACTERISTICS OF A GOOD BANKING SECURITY**

The security deposited by a customer to cover a bankers advances should be

a. Durable

b. Transferable with little expenses and inconveniencies i.e. readily saleable

c. Capable of easy and accurate valuation

d. Easily realizable i.e. easy to convert to cash.

e. Sate in value

f. Has a value that is greater than the value of the loan

g. Free from any legal claims by other parties.

**TYPES OF SECURITIES TAKEN BY BANKERS**

1. Stock and Shares – e.g. ‘gilt edged’ and blue chip’ securities.

2. Land Buildings

3. Life Assurance Policies

4. Documents of titles to goods e.g. bill of lading

5. Guarantees

6. Indemnity

7. Deposit Account/Cash collaterals

8. Fixed and floating changes on assets of the business.

**Factors that a bank manager consider before granting loans or advances to customers.**

1. The amount of the loan

2. The type of account the customer operates

3. The past financial dealings of the customer with the bank

4. The purpose for which the loan is required

5. The collateral security offered by the customer

6. The period or tenor of the loan

7. Government policy on bank lending

8. The ability repay/viability of the project

9. The financial reports (accounts) of the customer.

**DIFFERENCE BETWEEN LOAN AND OVERDRAFT**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Loan** | **Overdraft** |
| 1. | Tenor (Durations) | Long term/medium | Short – term |
| 2. | Repayment | Instalmentally as per agreement | Repayable on demand |
| 3. | Type of Account | Loan Account | Current Account |
| 4. | Balance | Relatively stable and always a debit balance | Fluctuating; may swings from debit to credit and vice – versa |
| 5. | Interest charged by the bank | On the full amount of the loan | Only on that part of the overdraft facility utilized by the customer. |
| 6. | Availability | To any type of account | Only to customers having current accounts. |

**REVIEW QUESTIONS**

1. Describe five ways by which commercial banks aid foreign trade.

2. Describe to Kola, a new recruit in your office, the steps he may take to open a current account.

3. Explain any six factors whish a bank manager would take unto consideration in evaluating an application for a loan.

**WEEKEND ASSIGNMENT**

1. If a customer is allowed N1000 overdraft and he receives a bank statement showing an overdraft of N100. This means that he (a) Cannot draw more cheques (b) Is owed N100 by the bank (c) Owes the bank at least N900 (d) Owes the bank N100 only.

2. Which of the following is a loan, carrying a fixed rate of interest and secured on the assets of a company (a) Mortgage debenture (b) Naked debentures (c) Preference shares (d) Deferred shares

3. To a commercial bank deposits are (a) Liabilities (b) Assets (c) Capital (d) Cash at hand

4. Discounting a bill of exchange means the bill is (a) Cashed over the counter (b) Sold on the stock exchange (c) Bought for less than its face value (d) Sold to the highest bidder

5. Banks issue cheque books to customers holding\_\_\_\_\_\_\_\_\_ account (a) Deposit (b) Fixed deposit (c) Current (d) Savings

**THEORY**

1. State two features of savings account

2. Mention three collateral securities acceptable to banks o secure an advance

**GENERAL EVALUATION QUESTIONS**

1. Explain five reasons why tariffs are imposed on imports
2. State five functions performed by the Customs Authorities
3. Give six reasons why manufacturers pre-package their products
4. Explain five factors that adversely affect the growth of Commerce in West Africa
5. Mention and explain five ways by which the Central Bank regulates the activities of commercial banks

**WEEK 7 – 8**

**TOPIC: THE CHEQUE SYSTEM**

**CONTENTS**

1. Parties to a cheque

2. Advantages of payment by cheque

3. Types of cheques

4. Dishonoured cheques

**CHEQUE**

A cheque is a bill of exchange drawn on a banker payable on demand

**PARTIES TO A CHEQUE**

There are three parties involved with a cheque namely:

1. The Drawer - .i.e. the person who issues the cheque

2. The Drawee - .i.e. the bank being instructed to pay the money

3. The Payee - .i.e. the person named on the cheque to receive the money from the bank.

The drawee of the cheque also becomes the payee when the amount payable on the cheque is to be received by himself.

**ADVANTAGES OF PAYMENT BY CHEQUE**

1. Convenience. Cheque may be made out for any sum of money and requires no change. They are therefore a convenient means of making payments.

2. Security. It is safer to carry cheque than cash for security reasons.

3. Easy to trace: cheques are numbered and may therefore be easily traced when the need arises.

4. It provides a record or payments and receipts. i.e. it is needless for the payee to send a receipt for such payment.

5. Portability: cheques are easy to carry about and therefore make carrying large sums of money unnecessary.

6. Reduced risk of loss: a cheque is an absolutely safe means of payment especially when crossed as the risk of loss is eliminated

7. Payment may be stopped by the drawer. E.g. so as to prevent fraud.

8. The use of cheques reduces the demand for bank notes and coins.

9. The use of cheques saves the time and energy involved in counting cash.

**TYPES OF CHEQUES**

**1. Bearer Cheques:** These are worded “Pay…… or Bearer” and would be paid by the bank to whoever is presenting the cheque for payment whether the name on the cheque is his or not. Such cheques are not as safe as order cheques. A bearer cheque does not require endorsement when negotiating it (i.e. transferring it to another person).

**2. Order Cheque:** Such cheques are worded “pay…………… or Order” and would only be paid to the person or firm whose name appear on it, or to his order – i.e. any other person to whom the payee endorses the cheque to.

**3. Open Cheque:** These are cheques that are not crossed and can therefore be presented and cashed over the counter of the bank on which it is drawn. Open cheque are not safe as crossed cheques as there is a risk that it can be paid to a wrong person.

**4. Crossed Cheques:** These are cheques that have two parallel lines drawn across the face with or without the words “& Co.” “A/C payee only”, “Not Negotiable” etc. crossed cheques cannot be cashed over the counter of the bank but must be paid into a bank current account. They are therefore safer than open cheques.

Crossed cheque can be made open by the drawer writing the words “Pay Cash” on it and adding his signature immediately after the words “Pay Cash”

**TYPES OF CROSSING**

There are two types of crossing on cheques namely general crossing and special crossing.

**1. General Crossing:** This is effected by drawing two parallel lines across the face of a cheque with or without the word “& Co.” “Not Negotiable”, “A/C Payee Only”. e.t.c. as found below.

**1**

**2**

**3**

**4**

**5**

**& Co.**

**NOT NEGOTIABLE**

**& CO. NOT NEGOTIABLE**

**A/C PAYEE ONLY**

**EFFECTS OF GENERAL CROSSING**

General crossing makes such a cheque payable into a bank account for collection i.e. it cannot be cashed over the counter. It therefore affords protection against fraud.

Crossing a cheque does not necessarily prevent if from being stolen. However it makes is easy for the thief to be traced since he has to use a bank account to cash such a cheque.

**2. Special Crossing:** This is effected by writing the name of a bank across the face of the cheque with or without the parallel lines and the word “& Co.” “Not Negotiable” “A/C Payee Only” etc as found below.

**WEMA BANK OF NIG. PLC**

**AGEGE BRANCH**

**WEMA BANK OF NIG. PLC**

**AGEGE BRANCH**

**A/C PAYEE ONLY**

**EFFECTS OF SPECIAL CROSSING**

Special crossing limits payments of such a cheque into the bank whose name is written on the face of that cheque. This ensures a greater and stricter protection against fraud.

**DEFINITION OF TERMS ASSOCIATED WITH CHEQUE**

1. Post – Dated Cheque: This is a cheque that is presented for payment before the date shown on it. The bank will not pay until the specified date is due.

2. Stale cheque: This is a cheque that is presented for payment more than six months after the specified date. The bank will not pay this cheque.

3. Endorsement: To endorse a cheque means that the payee has to append his signature at the back of the cheque.

4. Certified Cheque: This is a cheque on which a bank has signified that the drawer has enough fund to pay and that, in any case, the cheque cannot be dishonoured.

5. Dishonoured cheque: (i.e. **“Bounced”** **Cheque)**. A dishonoured cheque is one which a banker on whom it is drawn has for some reasons refused to pay on presentation for payment by the payee. Before returning a dishonoured cheque to his customer the banker usually writes on it reason for dishouring e.g **“R/D”** (i.e. Refer to Drawer) “Account closed”, **DAR** i.e. (Drawer Attention Required), Orders Not to Pay” etc.

**REASONS FOR DISHONOURING A CHEQUE.**

1. Insufficient fund

2. When payment is stopped by the drawer

3. Irregular signature (i.e. Drawer Signature Irregular)

4. Difference in figure and word

5. Cheque mutilated

6. Alteration on cheque not endorsed by the drawer.

7. Stale cheque

8. Post dated cheque

9. Death of drawer

10. Insanity of the drawer

11. Bankruptcy of the drawer

12. Account closed

13. Account frozen on court order/Garnishee order

14. No Account i.e. Account does not exist e.t.c

**REVIEW QUESTIONS**

1. Explain six reasons why a trader would prefer the use of cheque to cash for large payments.

2. Explain each of the following (a) Order cheque (b) Certified cheque (c) Crossed cheque

3. What is meant by the following words written on a cheque (a) Not Negotiable (b) Accounts Payee only.

4. State two safeguards which could prevent the fraudulent use of a cheque.

**WEEKEND ASSIGNMENT**

1. Which of the following abbreviations indicates a banker’s unwillingness to honour a cheque (a) R/D (b) B/F (c) B/D (d) C/F

2. Which of the following reduces the risk of carrying large amount of money (a) Bank draft (b) Wallet (c) Vouchers (d) Cash till

3. The fee which the bank charges for services render to their current account customers is (a) Commission on turnover (b) Bank rate (c) Minimum rediscount rate (d) Interest

4. Legal tender consists of (a) Cheques and coins (b) Bank draft and cheques (c) Currency notes and coins (d) Money order and currency notes

5. The drawer of a cheque is usually the (a) Banker (b) Creditor (c) Debtor (d) Payee

**THEORY**

1. List three parties to a cheque

2. State five reasons why a bank will dishonour its customers cheque.

**GENERAL EVALUATION QUESTIONS**

1. Explain five features of itinerant trading
2. State five features of a supermarket
3. List five disadvantages of pre-packaging
4. State six factors which a bank manager considers in granting loans to customers
5. In which seven ways does branding affect the consumer

**WEEK 9**

**TOPIC: NEGOTIABLE INSTRUMENTS**

**CONTENTS**

1. Bill of exchange

2. Dishonoured Bills

3. Promissory Notes

**NEGOTIABLE INSTRUMENTS**

A negotiable instruments is an instrument whose title (or ownership) on it could be transferred by delivering it to another person with or without endorsement. Examples of negotiable instruments are bills of exchange, cheques, bank drafts, bill of lading, dividend warrants, treasury bills, bank notes and coins promissory notes debentures payable to bearer, bearer bonds, bill of lading etc.

**BILL OF EXCHANGE**

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to who it is addressed to pay on demand, or at a fixed or determinable future time a sum certain in money to, or the order of a specified person or to bearer.

In a simpler language, a bill of exchange refers to a written order issued to a buyer of goods (i.e. the debtor) by the seller of such goods (i.e. the creditor) asking for payment of sum of money at the end of a period of a time, usually three months.

3 Olayinka Street

Moroga, Meiran Road

Lagos

8th June, 2009

N80000

Ninety days after date, pay to me or my order, Eighty Thousand Naira, value received

To: Mrs, Grace Ademola

Blessed Stores Ltd.

Ikeja Lagos. Signed

J. Olakunle

John Olakunle

N100

Stamp

Non-negotiable instruments

Dock Warrant, share certificate, postal order,

Money order, I.O.U

A debtor who receives a bill of exchange has to write the word **“ACCEPTED”,** his signature and date across the face of the bill and then return it to the sender (i.e. the drawer of that bill of exchange – the creditor or seller of the goods concerned).

**PARTIES TO A BILL OF EXCHANGE**

i. The Drawer – the creditor or seller of the goods

ii. The Drawee – the debtor or buyer of the goods

iii. The Acceptor – usually the drawee of the bill

iv. The Payee – the person who receives payment of the amount stated on the bill. He is usually the drawer of the bill or the transferee (or endorse) if the bill is subsequently negotiated (transferred) to another person

v. The endorser – this refers to the person who signs his name at the back of the bill before payment is made.

**WAYS BY WHICH A BILL OF EXCHANGE CAN BE EXCHANGED FOR VALUE**

1. Keeping it till maturity: NB A bill which has been settled on the due date is called a “matured” bill.

2. Negotiating or transferring it to another creditor

3. Discounting it. The drawer of the bill may sell the bill to his bank earlier than the date specified (i.e. before the bill matures) and obtain cash for it. In this case the bank will pay cash that is less than the face value of the bill to the drawer (or endorsee)

**TYPES OF BILLS**

1. Inland Bill: This is used in financing internal or home trade.

2. Foreign Bill: This is a bill used in financing international trade. It is used as between the importer and exporter.

**HOW A BILL OF EXCHANGE HELPS TRADE**

1. Short – Term Credit: A trader can obtain goods which he may sell at a profit before paying when the bills mature.

2. A discountable Instrument: The holder can discount it with his bank. This means that the holders capital cannot be locked up in the bill for too long.

3. A negotiable instrument: The drawer may transfer (i.e. negotiate) it to someone to whom he is indebted

4. It has a fixed time for payment: The holder is sure of when the bill mature since the time for payment is duly fixed

5. It offers flexibility in payments and terms of payment.

**ADVANTAGES OF A BILL OF EXCHANGE**

1. It is a negotiable instrument

2. It has a fixed date for payment

3. It is a credit instrument. i.e. it is a means of short-term credit.

4. It is a discountable instrument

5. It provides a written acknowledgement of indebtness.

6. It is a convenient means of payment.

**DISHONOURED BILLS**

To dishonour a bill of exchange means to either

a. Refuse to accept it – dishonoured by non-acceptance or

b. Refuse to pay when it falls due – dishonoured by non-payment.

**STEPS TO BE TAKEN BY THE HOLDER OF A BILL WHEN THE BILL**

**IS DISHONOURED**

**1. Noting:** This is done by the holder of the bill to obtain formal (or official) proof that a bill has been dishonoured. He takes the bill to a notary public (i.e. a person usually a solicitor) who authenticates the fact that the bill if dishonoured.

The notary public or his clerk “notes” on the bill of exchange and records it in his register adding his initials (signature), date and noting charges.

Noting is just a preliminary to the next step – called a **PROTEST.**

**2. Protest:** The protest is a formal certificate as to the dishonour. It is based upon the noting and specify the person at whose request the bill is protested, place and date of protest the reason for protesting the bill, the demand made and the answer (if any) given, or the fact that the drawee or accepter could not be found.

**Difference Between a Bill of Exchange and a Cheque**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Points** | **Bill of Exchange** | **Cheque** |
| 1. | Drawer | The Creditor | The Debtor |
| 2. | Drawee | The buyer of goods | The bank |
| 3. | Payee | The drawer | The Creditor |
| 4. | Tine of Payment | Usually in the Future | Payable on demand |
| 5. | Acceptance | Has to be accepted | Not required |
| 6. | Crossing | No Crossing | May be crossed |
| 7. | Discounting | Can be discounted | Cannot be discounted |
| 8. | Noting and protesting in case of dishonour | Required | Not required |

**OTHER TERMS CONNECTED TO A BILL OF EXCHANGE**

1. Days of grace: Bills may be payable on demand or at some future date. In the later case (.i.e. for bills payable at some future date) the bill is payable on the third day after the expiration of the term mentioned on it. These extra three days are called “days of grace”

2. Retiring a bill: An acceptor may approach the holder of a bill for permission to pay before the due date. A bill taken out of circulation in this way is said to be retired. Usually the hider allows the accepter a “rebate”. Or “discount” for paying before the expiration of the term

**PROMISSORY NOTES:**

A promissory note is an unconditional promise in writing made by one person to another, signed by the maker engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.

Whereas the person to whom the debt is owed (i.e. the creditor) draws up the bill of exchange, the debtor himself draws up the promissory note. The bill of exchange is an order to the debtor to pay while the promissory note is a promise by the debtor to pay.

N10,000 9, Medical Road

Ikeja, Lagos

12th June, 2009.

**TWO MONTHS** after date I promise to pay Peter Samuel or order the sum of Ten Thousand Naira Value received.

Signed

NR-bd.

Nuhu Ribadu

N100

Stamp

**PARTIES TO A PROMISSORY NOTE**

1. The maker i.e. the debtor who promises to pay the money.

2. The payee i.e. the creditor to whom the promise is made.

**DIFFERENCE BETWEEN A PROMISSORY NOTE AND A BILL OF EXCHANGE**

|  |  |  |
| --- | --- | --- |
|  | **Bill of Exchange** | **Promissory Note** |
| 1. | An order given by one person to another to pay money | A promise to pay money |
| 2. | Has to be accepted by the debtor | Acceptance is not required |
| 3. | The drawer is the creditor with secondary liability | The maker is the debtor with primary liability on the note |
| 4. | It is negotiable | It is not a good negotiable instrument |
| 5. | Protest necessary when a bill is unpaid | No protest is required |

**REVIEW QUESTION**

1. Define a bill of exchange

2. What is meant by the acceptance of a bill

3. What is NOTING and PROTESTING as it relates to a bill of exchange.

**WEEKEND ASSIGNMENT**

1. Which of the following cheques does not require endorsement (a) Specially crossed cheque (b) Open cheque (c) Bearer cheque (d) Generally crossed cheque.

2. Which of the following is the most liquid (a) Bill of exchange (b) Promissory note (c) Money order (d) Open cheque

3. A bill of exchange is made more negotiable it if has been (a) Endorsed (b) Accepted (c) Honoured instantly (d) Given special crossing.

4. A bill of exchange sold for less than its face value before maturity is said to be (A) Accepted (b) Discounted (c) Dishonoured (d) Protested

5. A cheque dated 5/2/08 but was dishonoured because it was (a) Post dated (b) Ante-dated (c) Stale (d) Order cheque

**THEORY**

1. State four parties to a bill of exchange.

2. List any four uses of bill of exchange in foreign trade.

**GENERAL EVALUATION QUESTIONS**

1. State eight features of hawking
2. Explain seven characteristics of a sole proprietor
3. Outline seven functions of the Central Bank
4. State six essential features of a bill of exchange
5. Give seven reasons why small scale retail businesses may fail

**WEEK 10**

**TOPIC: OTHER FINANCIAL INSTITUTIONS**

**CONTENTS**

1. Merchant Banks (Investment Banks)
2. Development Banks

**NOTES**

**MERCHANT BANKS (INVESTMENT BANKS)**

This may be defined as financial institutions that provide medium and long loans, accept large deposits from customers and acts as issuing houses. They deal with high net worth individuals, companies, other financial institutions and government agencies.

**FUNCTIONS OF MERCHANT BANKS**

1. They give medium and long term loans to individuals, organizations and government.
2. They accept large deposits from their customers
3. They accept and discount bills for exchange.
4. They finance and advice on real estate, agriculture, industrial and related projects.
5. They advise and arrange for mergers and acquisition firms.
6. They act as issuing houses – they assist companies in their sale of shares to the public
7. They provide equipment leasing services to customers.
8. They offer financial advisory services to business clients.
9. They act as unit trust managers.

**DEVELOPMENT BANKS**

A development bank is a financial institution set up purposely to offer medium and long –term loans meant for development.

**FUNCTIONS OF DEVELOPMENT BANKS**

1. Provision of long term loans for capital projects.
2. Implementation of government industrial development policies.
3. Supervision of Projects.
4. They give advice to both the government and industrialists
5. They underwrite securities issues
6. They contribute to manpower development and provision of technical support
7. They conduct extensive study on the industrial sector e.g. feasibility studies.
8. They monitor and enhance general economic development activities.
9. They undertake research on industrial development.

**EXAMPLES OF DEVELOPMENT BANKS IN NIGERIA.**

1. BOI – Bank of Industry.
2. NARDB – Nigerian Agricultural and Rural Development Banks.
3. FMBN – Federal Mortgage Bank of Nigeria
4. UDB – Urban Development Bank
5. NEB – Nigerian Educational Bank
6. NEXIM – Nigerian Export and Import Bank.

**EVALUATION**

1. What is a Merchant Bank?
2. State five functions of merchant Banks.
3. Explain five functions of Development Banks in Nigeria.

**WEEKEND ASSIGMENT**

1. The liquid assets of commercial banks are

(a) Treasury bill, bills of exchange and cash (b) Cash, current Account and other money- bearing assets (c) deposit account and cash (d) Cash only.

2. To a commercial bank, deposits are

(a) assets (b) liabilities (c) capital (d) cash at hand

3. Discounting a bill of exchange means the bill is a

(a) cashed over the counter (b) sold on the stock exchange (c) bought for less than its face value (d) sold to the highest bidder

4. Which of the following is a function of merchant banks?

(a) issuance of currencies (b) accepting deposits (c) lender of last resort

(d) determination of rate of interest.

5. Mortgage banks gives loans to investors on long term basis to

(a) finance agriculture (b) acquire machinery (c) build houses

(d) establish businesses.

**THEORY**

1. State three functions of Merchant Banks
2. State three similarities between commercial banks and merchant banks.

**GENERAL EVALUATION QUESTIONS**

1. State five function of the Nigerian Export Promotion Council
2. Describe five ways by which commercial banks aid international trade
3. State five reasons why road transport would be preferred to rail transport
4. Give seven functions of the Federal Airports Authority of Nigeria (FAAN)
5. State five aids to trade and explain how each facilitates trade