TRENDS IN INTERNATIONAL TRADE

I.e.-commerce (electronic commerce)
Involves use of internet when buying and selling goods and services.
Benefits:
a. Firms can easily transact through the internet
b. It is a fast way of transacting business
c. Cheap to transact business.

2. LIBERALISATION
Involves the removal of trade barriers.
Benefits:
a. leads to increase in foreign and direct investment as most of the barriers have been removed.
b. Facilitates technological transfer between countries due to free movement of factors of production
c. Enables countries to experience positive economic growth due to increase in volume of trade

Drawbacks:
* May lead to dumping of goods leading to collapse of infant industries
* Results to harmful environmental effects due to over exploitation of available resources
* Cause erosion of cultural factors.

3 ELECTRONIC BANKING (E- BANKING).

This means accessing banking facilities from anywhere worldwide through the internet.

4.EXPORT PROCESSING ZONES (EPZ).

These are areas set aside by the government to set up industries for producing goods meant for export.

5.REGIONAL ECONOMIC INTEGRATION.

Economic integration has rendered geographical natural boundaries irrelevant. Regions rather than countries have emerged as key economic areas.

6. MOBILE BANKING (M-BANKING).

This involves accessing banking facilities through mobile phones. Background

In form three, we learned about demand and supply where we learned that price is a major determinant of what is to be demanded and supplied.

Persistent rise reduces quantity demanded and increases quantity supplied
thus creating an imbalance in the market.

A source document is a written proof that a business transaction has
taken place between a buyer and a seller.
A book of original entry is where transactions are recorded as they occur. INTRODUCTION

When business transactions take place, it is important that they be
supported by source documents. These source documents act as basis for
recording in the books of original entry.

Click on play button to observe when a source document is issued.
Click on play button to view business transactions and some documents used.

Click on the play button to view various pages of a journal.
Click on the play button to view how information is recorded in the journal.

Click on the play button to view financial statements.

FINANCIAL STATEMENTS

Trading period

The Balance sheet

When preparing a balance sheet, net profit or loss, drawing and
additional investment are adjusted on the initial capital to arrive at
the final capital.

Calculating basic ratios

Financial ratios analysis is comparison in which certain financial
statement items are divided to show some relationship that provide
indication of financial performance of a business.

Click on video to view a customer at ATM depositing money. Click on play button to view a
customer depositing money through mobile
banking.

Kenya Commercial bank

Development of banking from precious metals, paper notes to credit cards.
Automated Teller Machine

Types of accounts offered by commercial banks

Savings accounts

This is an account where people save money for future use. Features of savings account

* They earn interest. Initial deposit is required to open the account.
* Automated Teller Machine cards are used when withdrawing.
* Money can be deposited at any time in any form, for example cash,
cheques, bank drafts, money orders among others.
* Account holders use debit cards to withdraw money.
* Automatic Teller Machine (ATM) may be used when withdrawing or depositing money.
Current account

This is an account that uses cheques for withdrawals. Features of current accounts

* Money deposited earns no interest.
* Offers bank overdraft facility.
* There is use of cheque books.
* There are charges for use of cheques.
* Any amount of money can be withdrawn without notice. Fixed deposit account

This is an account that is operated for a specified period of time. They are mostly operated by people who have no immediate use for money. Features of fixed deposit accounts

* Interest rate is fixed.
* The period of operating the account t is fixed.
* The amount deposited cannot vary over the terms of the account.
* Interest paid is higher than in savings.

Exercise 2

The following is a mixture of characteristics and functions of money. Drag and drop them in the table below under the relevant heading. Unit of account Stability Scarcity Measure of value Portability Durability Medium of exchange Divisibility

Click on the play button to view inauguration of a CDF project. Click play button to view people file their annual tax returns at Kenya Revenue Authority Headquarters.

Government provides public service such as health.
Click play button to view recurrent expenditure by government.
Click play button to view development expenditure by government.

Click on the play button to view public road.Public expenditure should benefit as many people as possible. Click on the play button to view public school constructed using CDF funds.Public expenditure should be sanctioned to avoid wasteful expenditure.

Demerits of direct taxes

* The tax payer bears the burden and impact of the tax.
* Some incomes that are irregular may be problematic to asses for payment of taxes and the state may lose revenue.
* May not be paid by all income earners especially low income ones due tax exemptions yet they may benefit more from public goods and services.
* Payment is mandatory for those in the tax bracket.
* Reduces disposable income thus limiting savings. Indirect tax is tax imposed on consumption of goods and services. Merits of indirect taxation

* High amounts are collected because it is based on a wide range of essential commodities
* It can be used to reduce consumption of harmful products.
* It is easier to change the tax rate on the commodities depending on the government revenue requirements.
* Difficult to evade as tax is factored in the price of commodities.
* One can avoid the tax by not consuming the products. Demerits of indirect taxes

* It is expensive to administer as tax inspectors are employed to ensure collection and remittance is done to relevant authorities.
* Uncertainty in revenue collection as the tax amount collected depends on the goods and services purchased.
* Increases prices of commodities as the tax is inclusive of the price.
* Low savings because the income that could have been saved is used to buy high priced goods.
* It can be manipulated as dishonest business people can evade tax by not disclosing correct sales figures leading to less tax being collected by the government.

Click on video to view changes in price of different commodities. INFLATION

Continuously increase in demand for goods and services in the economy without corresponding increase in supply will push prices up leading to inflation. Introduction

Continuously increase in demand for goods and services in the economy without corresponding increase in supply will push prices up leading to inflation.

Types of inflation

Demand pull inflation

This is a type of inflation caused by excessive demand for goods and services without a corresponding increase in production resulting into rise in prices. Causes of demand pull inflation

* Increase in population.
* Increase in government expenditure.
* Printing and releasing of more currency which increases money in supply without corresponding increase in production.
* A fall in the level of savings.
* Expectation of future price increases.
* Anticipation of future shortages of goods and services. Cost push inflation

This is a type of inflation caused by increase in cost of factors of production which translates to increased prices of goods and services. Causes of cost push inflation

* Increase in wages and salaries.
* Increase in cost of raw materials.
* Increase in indirect taxes.
* Increase in cost of energy, for example, price of oil.
* Increase in cost of machinery and equipment used in production. Imported inflation

This is a type of inflation which is caused by importation of high priced goods and services such as;technology/machines,skilled human resources and crude oil. Causes of imported inflation

* Importation of expensive technology especially highly skilled labour.
* Importation of expensive machines and equipment.
* Importation of high priced oil. Levels of inflation

Mild inflation

This a slow rise in price level of not more than 5 % per annum. It is associated with low levels of unemployment and has beneficial effects on an economy. It shows a sign of buoyant economy or an expanding economy, implying generation of jobs, output and growth. Hyper /rapid inflation

This is a very rapid accelerating inflation. It usually leads to breakdown of the country's monetary system as the currency may have to be withdrawn and a new one introduced. Stagflation

This is an economic condition in which unemployment is high, the economy is stagnant, but prices are rising. Galloping/runway

This is when prices are rising at double or triple digit rates of 20%, 100%, 200%. Effects of inflation in an economy

Desirable effects

* Mild inflation motivates people to work hard.
* Mild inflation encourages proper utilization of resources.
* Mild inflation increases investment and employment.
* It promotes creativity in an economy. Negative effects

* Loss of money value.
* Increased interest rates.
* Leads to unemployment.
* Discourages savings and investment.
* Worsens balance of payments position.

Controlling inflation

Fiscal measures:
* Reducing government expenditure.
* Increased tax on disposable income.
* Government to subsidize production of goods and services. Monetary policies:
* Increasing bank rates to discourage borrowing.
* Selling government securities such as treasury bills and bonds.
* Selective credit control.
* Increase in cash or liquidity ratio. Other measures:
* Control population.
* Curtail activities of trade unions.
* Encourage domestic production.

Click video to view goods being off-loaded at the Kenya Ports Authority inland port.
Click on the video to see movement of trucks at the border post.
Click on the play button to view goods being offloaded from a ship at the port.
Click on the play button to view Nairobi International Trade Fair with local and foreign stands. Advantages of international trade

1. May enhance efficient utilization of resources due to specialization.

2. May lead to production of high quality goods and services due to competition.

3.Competition among the trading countries leads to fair prices.

4. Promotes exchange of ideas and transfer of technology. 5. Promotes international peace and understanding. 6. Countries earn foreign exchange to pay for imports and debts. Disadvantages of international trade

1. May lead to suffering of the importing country when relations are strained . 2. May hinder growth of infant industries due to competition from established foreign industries. 3. May lead to importation of harmful goods and services.

4.May lead to dumping of substandard goods and services from other countries.

5.Transfer of undesirable socio cultural behaviours from other countries. International trade may lead to dumping of goods and closure of some infant industries.

BALANCE OF TRADE

It refers to the net earnings on exports minus payments for imports. Visible exports or imports

Refers to the physical or tangible goods such as machinery, oil, coffee and tea. Invisible exports or imports

This refers to services, for example, labour. Favourable balance of trade

This occurs when the value of exports exceeds the value of visible imports. Unfavourable balance of trade

This occurs when the value of imports exceeds the value of visible exports.

INTERNATIONAL MONETARY FUND (I.M.F)

It was formed to perform the following roles;

1) To ensure that member countries maintain stable foreign exchange rates for their currencies.

2) Providing financial support to member countries with intention to alleviate poverty.

3) Relieving heavily indebted member countries of debt repayment so that they can use such funds to improve their citizens living standards.

4) Providing funds to some member countries to finance their balance of payment deficits.

5) Providing a forum for member countries to consult and cooperates on matters concerning trade among them.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT(I.B.R.D) (WORLD BANK 0

It was formed to perform the following functions;

a) Giving loans to countries at considerably low interests to finance economic development

b) Providing grants to finance social amenities and basic infrastructure in member countries

c) Fighting against corruption and poor governance which may lead to misuse of public funds in member countries

d) Giving advice on economic challenges that member countries may be facing

. e) Providing technical assistance and personnel to help member countries run their economic programmes. AFRICAN DEVELOPMENT BANK

It was formed to perform the following functions; 1)Advance loans to member countries at low interest

2) Providing technical assistance and personal to member countries to run their projects

3)Providing advice on economic and development issues of member countries

4)Mobilising funds to finance private and public investment initiatives in member countries

5)Assist in coordinating development policies and plans

ECONOMIC INTEGRATION

Refers to the economic cooperation among countries mainly from the same region. It occurs where two or more countries enter into mutual agreement to cooperate with each other for their own economic benefits. FORMS OF ECONOMIC INTEGRATION

a) FREE TRADE AREA

This is where all trade barriers are removed among members countries but each member maintains its own barriers towards non members.

b) CUSTOMS UNION

This form of integration does not allow countries and sharing of trade policies or other trade barriers among member countries but harmonizes trade policies of the member countries with those of the rest of the world.

c) COMMON MARKET

This is an economic integration where in addition to eliminating trade barriers among member countries and sharing of trade policies. Free movement of labour and capital among member countries is allowed.

d) ECONOMIC UNION

In this economic integration a part from removing all trade barriers among themselves, the member states harmonize and unify their monetary and fiscal policies. For instance European union. East Africa Community Headquarters

IMPORTANCE OF ECONOMIC INTERGRATION

* Widen market for locally produced goods and services.
* Leads to expansion and establishment of industries and to cater for increased demand.
* Creation of new opportunities for trade.
* Production of high quality goods and services due to competition
* Promotes international peace and understanding.
* Encourages joint research.

FREE TRADE

Meaning of free trade

This refers to unrestricted exchange of goods and services among countries.

ADVANTAGES OF FREE TRADE

1. Leads to specialization in that countries engage in production of commodities which they can produce quality and cheaper goods and services.

2. Factors of production are used in the suitable, economic and profitable manner.

3. Enhances international peace and understanding.

4.Creates more employment opportunities.

5. Promotes industrial growth and development in the region.

DISADVANTAGES OF FREE TRADE

a. Less developed economies suffer stiff competition from advanced countries. b. Some commodities in the market may result to dumping of goods which adversely affect industries. c. A country may stagnate in other sectors due to removal of tariffs. d. A country may become dependent on others due to specialization. e. The non tariff trade results into loss of government revenue.

REASONS FOR TRADE RESTRICTIONS

* To protect infant industries
* Raise revenue for the government
* To discourage dumping of goods
* Creates employment opportunities
* To protect strategic industries for national security
* To expand domestic market.

METHODS OF TRADE RESTRICTIONS

1. Tariffs refer to taxes charged on imports thus raising their prices
2. Import quotas; This is the specific quantity of goods to be imported.
3. Foreign exchange controls; This is where the Government restricts the

foreign exchange needed for importation.
5. Embargo/Total ban; This is where the government prohibits importation of a particular good or service.
6. Legislation; the Government may enact laws, restricting certain trade practices in the country.

ADVANTAGES OF TRADE RESTRICTIONS

a. Encourages growth of local or infant industries
b. Increases government revenue
c. Controls importation of harmful products
d. protects the social and cultural values of the country
e. Discourages overdependence on imports

DISADVANTAGES OF TRADE RESTRICTIONS

a. Reduces the variety of goods and services available to consumers
b. May lead to production of poor quality goods and services due to lack of competition
c. May result to development of monopolies due to lack of competition from possible rivals

d. Reduces the volume of international trade
e. May lead to misallocation of resources .

Resources may be used for other means rather than their suitable ones.

Development plans are financed through budgets.

Click on the play button to view promulgation of the new constitution. Click on the play button to view road construction which leads to
economic growth in a country.
The following picture illustrates characteristic of underdeveloped region.