



Solomon Islands Business Studies Year 7

Learner's Book



Solomon Islands
Business Studies
Year 

Learner's Book

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Introduction

This Learner's Book provides a course in Business Studies for Year 7, the first year of secondary school. The book is divided into three, compulsory sections:

- Economics, in Chapters 1–3
- Accounting, in Chapters 4–5
- Start Your Own Business, in Chapters 6–9.

This book is based on an interactive approach to learning. This means you are expected to learn things for yourself by doing activities and exercises, not just by listening to the teacher or reading the book. The activities are an essential part of the book and you must complete them to learn properly.

You will find a range of activity types to engage and challenge you. These include:

Thinking Activities

These activities encourage you to think for yourself. You are expected to use your own knowledge or experience, or think about what you read in the book, and answer questions for yourself.

Practical Activities

These activities are practical and often hands-on, such as a role play on barter where goods are exchanged, doing research questions on the prices of goods, conducting interviews for a market survey, running a trade store or income-generating projects. These activities will help you to learn the practical skills that you will use when you leave school.

Writing Activities

You will need to address each question and write the answers in your exercise book.

Group Activities

In group work you are expected to discuss set topics or questions in groups and report back to the class. In this way you learn how to work together as a group to find the answer or solve a problem.

Field work Activities

Field work allows you important opportunities to go out of the classroom and see how companies, industries and organisations are set up, how they are managed, and how they operate.

Remember not to write in this Learner's Book. You should write all your answers to activities in your exercise book, or as directed by your teacher.

Economics



Figure 1.0 Roger is building a house with his relatives.

The first three chapters of this book are about economics. This will be a new word for most of you.

Economics is all about making choices. There are many things we would like. We cannot have everything we want. We have to choose. Economics is about how we make our choices.

It is important to try to make good choices. Making good choices will give us the most enjoyment or satisfaction.

Specific learning outcomes

By the end of this chapter, learners should be able to:

- ▶ define Business Studies, needs and wants, and other related terms
- ▶ discuss the importance of Business Studies
- ▶ compare examples of past and present needs and wants
- ▶ explain why needs and wants in the past were different from present needs and wants
- ▶ explain the term production
- ▶ discuss the importance of production in the Solomon Islands
- ▶ differentiate between goods and services as outputs of production
- ▶ differentiate between substitute and complementary goods and services.

Look at the drawings below.

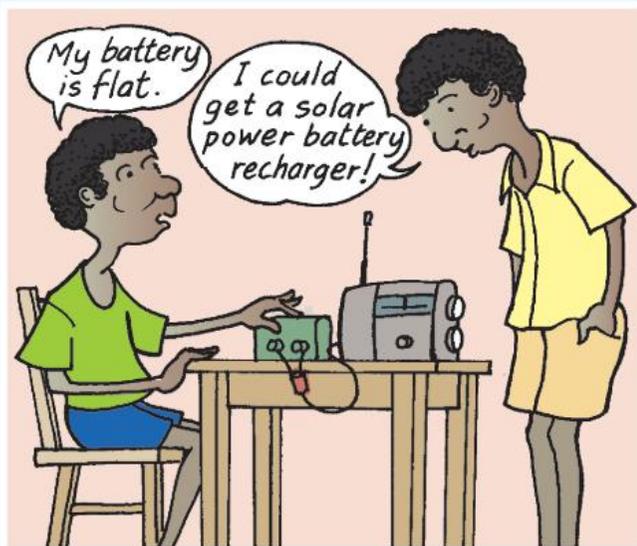


Figure 1.1 Fred sees that his friend Matias has a battery that is flat.

What does Matias need?

What can he do to solve the problem?

What idea does Fred have?



Figure 1.2 These women have a long way to walk home.

What would these women like to be able to do?

What idea might the man, Seb, have to help them?



Figure 1.3 Rachel can't find any clothes to fit.

What does Rachel need?

What do you think her sister Rose is thinking? (Rose knows how to sew using a sewing machine.)

In all of these cases, people need or want something. In all of these cases, there is a chance to start a business! Fred knows that there are many people in the village who use batteries. Batteries go flat, and new batteries are expensive. Fred knows about solar panels that can be used to recharge batteries.

Seb used to make simple rafts back home. He knows that there are many people just like these women, who live on the other side of the river. They have to walk a long way to cross at the bridge.

Rose starts to think that there are many women like her sister, Rachel, who can't find clothes that fit them well. Rose can sew. What if she made clothes for the women? What would she need to make the clothes?



Figure 1.4 Fred has started a battery recharging business.



Figure 1.5 Seb has built a raft to take people across the river.



Figure 1.6 Rose has started making clothes. She can make some to fit her sister Rachel.

People all around the world need and want things. They need clothing, they want batteries for CD players so they can listen to music, and they want a better way to cross a river. This is true for people in Solomon Islands. It is true for people in every country. In this chapter, you will learn about business. You will learn how businesses help many people to satisfy their needs and wants. They do this by making goods and helping people.

What do you know already?

- What are some of the things we must have in order to live?
- What are some things we would like to have?
- How can we get the things we would like to have?
- What does a business do?
- What do you think you will learn in this subject, Business Studies?
- Do we make all the things we need here in Solomon Islands?
- What are some of the things we make here and sell to other countries?
- Why do we sell goods to other countries?

1 Introduction

Businesses play an important role in our lives today. They provide us with the **goods** and **services** we need and want. A good is a thing we can touch, like clothing or tinned fish. A service is help given by one person to another. Seb helped the woman cross the river on his raft. She paid some money for this help. Services also provide some of us with a way of making money. As each year passes, the importance of business in our lives is growing. Very few people today are able to provide all the goods and services they need by themselves. They need to buy some goods and services from a business. A person who uses a good or a service is called a **consumer**. Every one of us is a consumer of goods and services. By studying how businesses work, we can become wiser consumers.

Not every school leaver can get a job. Some people can earn a living by starting up a small business. However, to do this successfully, they will need to know something about how to run a business. A **business** is made up of a person, or a group of people, who sell either goods or services to consumers. The making of goods or the provision of services is called **production**—but more about this later.



Figure 1.7 These people are consumers.



Figure 1.8 These people run businesses.

This subject, **Business Studies**, will explain what somebody needs to be successful in business. It will look at the role business plays in production, and how an individual business does not operate just by itself. There are other businesses that supply your business with the goods or services it needs. Some of these will be competitors. And then there is the government, which makes rules that businesses must follow.

In Business Studies, the aim is to allow you to learn the knowledge and the skills to be successful not only in business, but also as consumers of goods and services.

Activity 1

- 1 What is a consumer?
- 2 In your exercise book, list three goods you have “consumed” in the last two days.
- 3 What does a business do?
- 4 What is meant by the word “production”?
- 5 What is this subject, Business Studies, about?
- 6 How will Business Studies help you in the future?

2 Needs and wants

Activity 2

Look at all the goods shown in Figure 1.9, and answer the following questions in your exercise book.

1 It is your birthday. Your uncle has promised to buy you five of the goods shown in the pictures below. Which five would you choose?

2 Imagine you were left alone on a small island. Which five goods would you choose to have with you? List all five.

3 Are the goods in both lists the same? Why, or why not? What does this tell us about goods we need and goods we want?



a 20 kg bag of rice



b radio



c bush knife



d sports shoes



e sports bag



f sunglasses



g matches



h mobile phone



i cooking pot



j fishing line and hook



k tinned fish



l soccer ball



m bottle of soft drink



n magazines

Figure 1.9 Different goods to choose from. Remember—economics is all about making choices!

People all over the world have needs and wants. A person has a need for food and housing. This is as true for someone living in America or Japan as it is for someone living in Malaita or Makira. A **need** is something a person has to have in order to live. People also want things. This may be as simple as wanting to wear nice clothing. A **want** is something people would like to have. These things may not be necessary to live, but they make life more enjoyable. People in different countries like different kinds of clothing. Younger people may like different clothing from older people, even in the same country. Knowing what people need or want is the secret to success in business.

Past needs and wants

People have always had needs and wants. From the earliest times, people have needed food, water, and a house or shelter, just to survive. Like people today, they have also wanted more than just what is needed for survival.

In traditional times, people made for themselves the things they needed and wanted. When people produce goods and services for themselves, this is called **subsistence living**.

Present-day needs and wants

People today still need the same basic things as in earlier times, such as food and shelter. However, they do not provide all these things for themselves. They also have new needs. Because life today requires new kinds of knowledge that were not needed in the past, it could be argued that an education in school is becoming necessary for survival.

However, it is in the area of wants that things have really changed. There are many more things available in the shops today. There are many more things that people want. There are different styles of clothing. There are many electronic goods, such as radios and CD players, that people would like to have.

The other big change from the past is that people cannot provide these things for themselves. They cannot make things like CD players and radios. They have to buy them from businesses, and in order to buy these things, they need money. The important role that money plays in our society today will be looked at in Year 8, Chapter 1.

Activity 3

- 1 In your exercise book, write down three things, apart from food and housing, that you need to survive today.
- 2 Write down five things you want, but do not need.
- 3 Can you provide any of the things you mentioned in Question 2 by yourself? If not, how can you get them?

3 Goods

Goods are things that satisfy people's needs and wants. Goods are things that we can see and touch. They include foods such as sweet potato, taro, and fish. Today there are new goods such as rice and tinned fish, which satisfy the same needs. There are also goods such as clothing and shoes. Goods range from small things such as matches to large things such as trucks. These are things that can be seen and touched. They all meet some need or want.



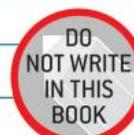
Figure 1.10 What needs and wants do these goods help to satisfy?

Activity 4

- 1 Copy the following tables into your exercise book and complete them. The first row has been completed for you as an example.

a

Need	Past goods	Present goods
To eat	sweet potato	rice
To cover the body	?	trousers
?	bush material house	house with iron roof
?	dug-out canoe	?
To cook food	?	?



b

Want	Past goods	Present goods
To listen to music	?	?
To play with	?	?
To decorate the body	?	?
To smell nice	?	?
To carry things	?	?



- 2 List three goods or services that an old person might want, but that a young person might not want.
- 3 Are needs and wants different for people living in villages compared to people living in towns? Discuss this in a paragraph in your exercise book. Give examples of different needs and wants.

Substitute goods



Figure 1.11 Imagine you want to buy some rice, but there is none available in the shops. What could you buy instead?

Some goods satisfy the same need or want. For example, cassava can be used instead of potato. Some people can drink either milo or coffee. If one good can be used instead of another, it is called a **substitute good**. It is useful for consumers to be aware of substitutes. Prices may be different. And if both goods meet the same particular need or want, then the cheaper good may allow the consumer to save money. Some substitutes may actually be better for you. For example, drinking from a green coconut will be better for the environment than drinking a can or bottle of soft drink. It will also be better for your health. In coastal areas, green coconuts will be cheaper.

Activity 5

Without using the examples of substitute goods described on page 7, list five substitute goods in your exercise book, and say what they are substitutes for.



Figure 1.12 Either of these goods will satisfy the same need if you are thirsty. They are substitute goods.

Complementary goods



Figure 1.13 If you buy a kerosene lamp or a torch, what other things will you have to buy to make it work?

You cannot use a kerosene lamp without kerosene. You cannot use a torch unless you have batteries. If you buy a car, what else will you have to buy? Petrol, of course! A car will not work without petrol. We call goods that are needed along with other goods **complementary goods**. They complete the other good. It is important for consumers to consider the complementary goods that they will also have to buy if they buy a particular good. The cost of complementary goods will add to the total cost. It is useless buying a huge CD player if you do not have electricity and cannot afford to keep buying batteries.

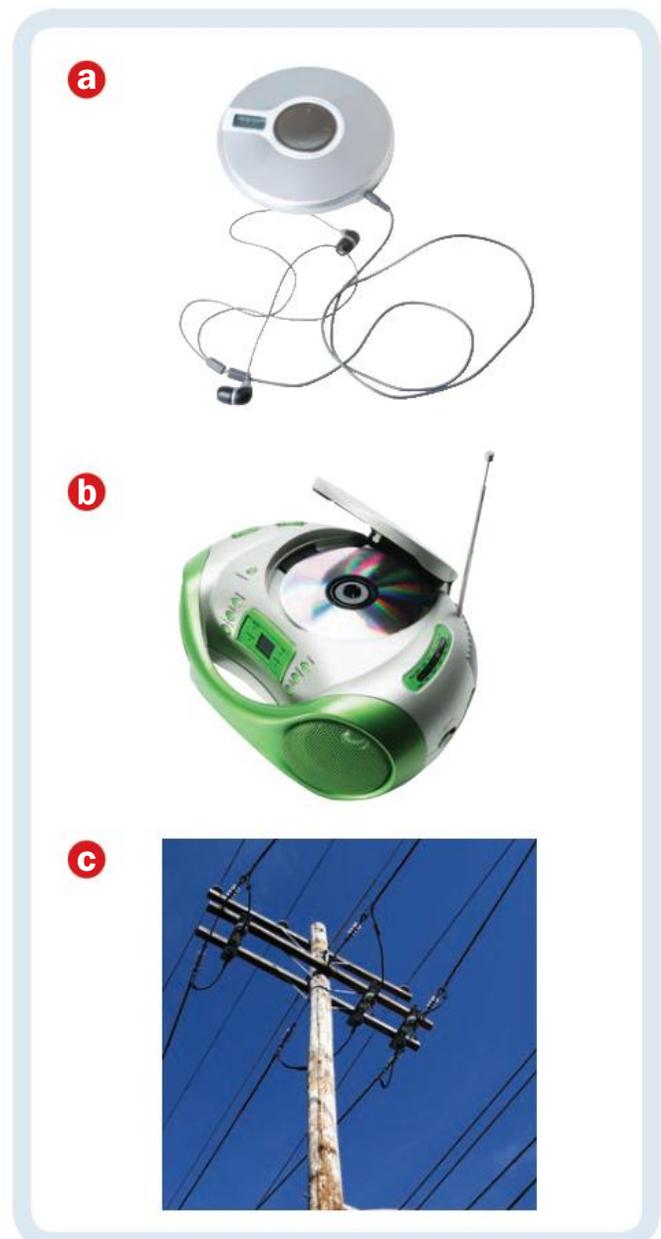
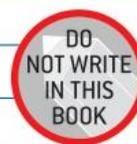


Figure 1.14 These goods are needed to help satisfy the want for music. They are complementary goods.

Activity 6

Copy the table below into your exercise book and complete it. Next to each pair of goods, write whether you think they are *substitute* goods or *complementary* goods. The first row has been completed as an example.

CD player	batteries	complementary
fresh fish	tinned fish	?
bread	margarine/butter	?
tea	coffee	?
truck	petrol	?
outboard motor	boat	?
exercise book	pen	?
lavalava	shorts	?



4 Services

Some businesses do not sell goods. They sell services because some of our needs and wants cannot be satisfied by goods alone. When we pay to go on a bus to take us to the market, we are not buying the bus. We are simply paying to ride on the bus. We are paying for a service. If someone repairs a bicycle, he or she is providing a service. If we have our hair cut, we enjoy a service. A service is any help that we get from another person.



Figure 1.15 When someone gives you a ride on their canoe, this is a service.

Your teachers are also providing a service. They are helping to provide valuable lessons. It is up to you to consume that service as best you can. You can also learn from the older members of your family, and from friends. Learning does not only take place at school.

Any help that you receive, and that satisfies a need or want, is called a service.

Activity 7

In your exercise book, make a list of five services a teenager would want to pay for. Next to each one, write down what need or want would be satisfied.

Example: a video cassette to watch a movie—the want for relaxation/luxury

Complementary services

Just as there are complementary goods, so there are complementary services. A **complementary service** is a service you may also have to pay for when you buy a certain type of good. When you are older, and if you live on the coast, you may buy an outboard motor.

Outboard motors cost a lot of money. Once you have paid for it, what will happen if it breaks down? Will you be able to fix it? If you have not been trained to fix outboard motors, it would be unwise for you to take it apart yourself, and you might actually make the problem worse. You may have to take it to a trained outboard motor mechanic. You can pay the mechanic to fix it for you. This is an example of a complementary service.

Before you buy any complicated machine—such as an outboard motor, a generator, a motorcycle, or a CD or DVD player—you should consider whether there is someone nearby who can service it. To service a machine is to look after it, by replacing things such as spark plugs and keeping the oil clean. Repairing is another type of service. Repairing a machine means fixing it if it is broken, or does not work. If there is no one close to where you live who can do these things, then it may not be wise to buy the machine in the first place.

Activity 8

In your exercise book, list three other examples of complementary services besides those mentioned above.

5 Production

Earlier in this chapter, production was defined as the making of goods or the provision of services. In traditional times, when people were living a subsistence life, they did most of the production themselves. They made the goods they needed and wanted. They also provided the services they needed and wanted. Production for your own use is called **subsistence production**.

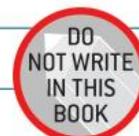
Today, the needs and wants of people have changed. Life is not as simple as it used to be. Solomon Islands is part of a community that covers the whole world (or globe), and is called **global**. People want some of the goods and services that are available in other countries. Some manufactured goods can be produced in Solomon Islands. Examples include Solomon Taiyo and soft drinks. The production of goods and services within the country is called **domestic production**. However, there are many goods that cannot be produced in Solomon Islands because they are difficult to make, such as radios, outboard motors, and videos. To get these goods, businesses in Solomon Islands have to buy them from businesses in overseas countries. When goods are bought from overseas, they are called **imports**. Some goods that are produced here are sold overseas. These goods are called

Activity 9

Some goods we use today are different from the ones that people used in the past. There are also some different services we use today.

Copy the table below in your exercise book and complete it. (The first row has been completed for you as an example.)

Need or want	Past service	Present service
Treatment for sickness	Traditional health care	Modern health care
Entertainment	?	?
Transport to another island	?	?
Child care	?	?
Communication	?	?



exports. Timber, fish, and gold are some examples of exports. This can be called **production for export.** The goods that we consume have been produced either by ourselves, by businesses in Solomon Islands, or by businesses in overseas countries.



Figure 1.16 People still produce some goods themselves. This man from Isabel is collecting clam meat.



Figure 1.17 Some goods are produced by businesses in Solomon Islands.



Figure 1.18 Some goods (imported goods) are produced by businesses in other countries.

Activity 10

In your exercise book, make lists of as many different goods and services as possible that are part of:

- a subsistence production today
- b domestic production
- c production for export

- 4 As a class activity, look around your classroom, and your school, and make a list on the blackboard of all the goods that have been imported from overseas. Next to each item, write down the name of the country from which it has come. The name of the country will often be written somewhere on the good; if you cannot find the name of the country, just leave it blank.

Production in Solomon Islands

The only way people can get the goods and services they need and want is through production. They can either produce the goods and services themselves, buy goods other people in Solomon Islands have produced, or buy imported goods that have been produced in other countries.

Activity 11

Suggest, and write in your exercise book:

- a two reasons why it may be an advantage to produce goods to supply your own needs and wants
- b two benefits we gain by producing and selling in Solomon Islands
- c two benefits from exporting goods.

The importance of subsistence production

In many parts of Solomon Islands, it is important for people to produce as much as they can by themselves. The main reason for this is that it saves money. If people need to get goods that other people have produced, it costs them money. As many people in rural areas do not have a lot of money, they cannot afford to buy many goods and services.

The importance of domestic production

More and more businesses are starting up in Solomon Islands. These businesses produce goods and services that other Solomon Islanders need and want. These goods and services are sold to other Solomon Islanders. The people who run these businesses earn money in this way. In turn, they spend this money on buying the goods and services they need. This subject, Business Studies, will help you to gain a better understanding of how to run a successful business. Even small businesses may enable a person to earn some money that can then be used to buy other goods and services.

If we produce goods here in Solomon Islands, we do not need to buy these goods from overseas.

The importance of production for exports

Some people produce goods to be exported to other countries. These people are business people. Some of their businesses are small, like the people who make copra or catch crayfish. Other businesses are quite big, such as Solomon Taiyo, and the logging businesses that sell their logs and timber to other countries. These businesses earn money for themselves. They also earn money from the rest of the world for Solomon Islands as a whole. Foreign money that is obtained from exports allows Solomon Islands to pay for the goods it imports. The production of goods for export is very important for the country as a whole. Also, it is an important way in which many people can earn money to buy the goods and services they need and want.

Activity 12

- 1 In your exercise book, make a list of five goods and five services that people in villages need, but that they cannot produce for themselves. Which of these can they get from other Solomon Islanders? Which have to be bought from overseas?
- 2 The goods that people need and want can come from three sources. What are these three sources?
- 3 Make a list of:
 - a five goods that are produced for subsistence living
 - b three goods that are produced in the Solomon Islands for export.
- 4 Why do some goods have to be imported?

Activity 13

Field Trip

Your teacher will arrange a field trip to study a business activity near your school, such as a small business that sells coconut drinks or a local trade store.

- 1 Working in groups of five, prepare a set of questions to ask the business operator. Below are some examples, but you can add others.
 - What is the output being produced?
 - Describe how the output is produced.
 - Is the output a need or a want? Explain why. Is the output a substitute or complementary? Explain why.
 - State the purpose(s) of the output being produced. How does it benefit the business and the economy as a whole?
- 2 Once you have completed your interview with the business operator, submit your group's answers to be marked as group assessment.

Chapter summary

Chapter

1

Economics is the study of how individuals and societies make choices about how they can best satisfy their needs and wants.

A need is something a person has to have in order to live. These things are food, clothing, and shelter.

A want is something a person would like, but that is not necessary for survival.

Our needs and wants can change from time to time.

Production is the making of goods and services that satisfy people's needs and wants.

Goods and services can either be substitutes or complementary.

Goods and services can be produced for:

- direct use (subsistence production)
- domestic use (within the country where they are produced)
- export (selling to other countries).

Glossary

business made up of a person, or a group of people, who produce a good or service to sell to consumers

Business Studies a subject that explains what you need to be successful in business; it looks at the role business plays in production

complementary goods goods that are needed along with other goods to make them work

complementary service a service you also have to pay for when you buy a certain type of good

consumer a person who uses a good or a service

domestic production the production of goods and services within the country

exports goods that are produced here, and sold overseas

global covering the whole world

goods things that satisfy people's needs and wants

imports goods bought from overseas

need something a person has to have in order to live

production the making of goods or the provision of services

production for export goods produced to be sold overseas

services any help that we get from another person

subsistence living when people produce the goods and services they need for themselves

subsistence production production for your own use

substitute good a good that can be used instead of another good

want something people would like to have. These things may not be necessary for life, but they make life more enjoyable.

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define resources or factors of production and related terms
- list the types of resources or factors of production used in the production process
- discuss the importance of the different types of resources
- classify examples of our types of resources
- discuss the importance of using our resources wisely
- differentiate between renewable and non renewable
- explain the stages of the production process
- describe the production process using examples in your community.

What do you know already?



Figure 2.1 Frank likes to go fishing.

What will Frank need to have and what will he need to do, if he wants fresh fish for dinner?



Figure 2.2 Rose and Philip want to grow their own food.

What will Rose and Philip need to have and do in order to achieve this?



Figure 2.3 Mary and Bill don't want the pigs to eat their crops.

To stop the pigs from coming into their garden, what will Mary and Bill need to do?

What do Mary and Bill need to have?

- What are some useful things that are plentiful in Solomon Islands? What natural things can help Solomon Islanders produce the goods and services they need or want?
- What will happen if we take all the trochus shells from a particular reef? Would they ever be replaced?
- What are some useful things we have in Solomon Islands that, if we are careful, will still be around for many years to come? Which things can be replaced if we use them carefully?

1 Introduction

This chapter looks at how goods are made, how services are provided, and the role business plays in making goods and providing services. Goods are made from different materials. They require people with skills to make these goods.

2 What is production?

The making of goods or the provision of a service is called production. Any activity that helps us to satisfy needs and wants is production. Most production that takes place in Solomon Islands is done by people living in villages. This production has been going on for thousands of years. Today the goods and services that people need and want are changing. More and more production is being done by businesses. Some businesses are small and some are very large.

All production has something in common. Some things are needed before production can take place. This is true for production that takes place in a village. It is also true for any modern production.

Activity 1

Look at Figure 2.4. It shows Roger building a house with the help of his friends and relatives. List four different kinds of things that are needed to make the house. Discuss this with the student next to you and write down your answers.



Figure 2.4 Which four things are needed to make this house?

- 1 The materials needed
- 2 Who is building the house
- 3 How the materials were obtained
- 4 Who is organising the building

The factors of production

In any human society, there is production. It involves four key things, usually referred to as the **factors of production**. These factors are as follows:

Natural resources refers to all natural or raw materials that exist on Earth. They include bush materials, plants, minerals, animals, and even fish from the sea.

What natural materials were used to build Roger's house?



Figure 2.5 These are all natural resources.

Labour refers to the human effort and skill needed to make goods or provide services. Somebody has to dig a garden, cut down a tree, or pull a fish from the sea. What skills were used in building Roger's house?



Figure 2.6 Making a canoe, digging a garden, weaving a sago palm, or driving a truck are examples of labour.

Capital refers to anything that is made by people and used to help produce goods and services. (In a different situation this word, capital, can be used to describe the cash needed to start a business, but more about this in Chapter 7.) Examples of capital are tools, machines, trucks, fishing boats, and buildings. What capital was used in building Roger's house?



Figure 2.7 The kite will help a fisherman catch fish. The drill is used to make shell money. These are examples of capital. Vehicles, tools, and boats are also examples of capital.

Enterprise refers to the person or people who organise production, and who have the idea to produce something in the first place.

Who organised the building of Roger’s house?

Anything that is useful in helping us to produce something can also be called a **resource**. There are natural resources. The factor of production called labour can also be called **human resources**. The factor of capital can be called **human-made resources**.

All four factors are needed in production. The most important one is enterprise, because without someone organising production, it will not happen. The person who provides or creates the enterprise is sometimes called an **entrepreneur**. The entrepreneur is the business person who starts up a business. In Chapter 6, Entrepreneurs, you will look more closely at the role of an entrepreneur.



Figure 2.8 Many different people may be involved in an enterprise.

Activity 2

- 1 What factors of production would be used in making a dugout canoe?
- 2 Copy the table below into your exercise book.

Write each word from the list below under the right heading. (The first one has been completed for you.)

Factors of production

Natural resources	Labour	Capital	Enterprise
?	?	?	Owner of taxi
?	?	?	?
?	?	?	?
?	?	?	?



owner of taxi taxi driver taxi fishing boat fish deck hand
 owner of boat gold palm oil spade chainsaw trees
 sweet potato farmer fisherman restaurant owner factory owner

3 Resources in Solomon Islands

The ability of a country to produce goods and services determines its ability to meet the needs and wants of its people. The amount of goods and services that are available for people in a country affects that country's **standard of living**. Japan has a higher standard of living than Australia because it can produce more goods and services per person. Australia has a higher standard of living than Solomon Islands because it can produce more goods and services per person.

How can this country improve its standard of living? It can only do this by producing more goods and services. And it will only produce more goods and services if it can improve the quantity and quality of its factors of production.

Natural resources in Solomon Islands

This country is blessed with many natural resources. It has seas full of marine products. It has forests full of timber. It has minerals such as gold and nickel. It has land, soil, and a good climate, which can produce crops such as oil palm, cocoa, and coffee, and products such as copra.



Figure 2.9 Solomon Islands has mining resources.

However, how people in a country use their natural resources is very important. People have to be careful when they clear forests. Forests provide valuable timber that can be sold for money. There is a short-term benefit. But what happens to the land after the forest is cleared? If mountains or hills are cleared, and not replanted, heavy rain can lead to landslides. This was one of the causes of the floods in West Guadalcanal in 2009, which killed twenty people.

Solomon Islands has many places of natural beauty. There are coral reefs and beautiful lagoons. The government is trying to develop a bigger tourism industry around these natural attractions. Many foreign tourists like to go diving, fishing, and hiking in the mountains, around these areas of natural beauty. They also come to visit World War II sites and to admire the unique culture of Solomon Islands.

Labour in Solomon Islands

According to the latest census, in 2009, Solomon Islands had a population of over 518 000 people. Not all of these people are involved in production. There are many babies and very young children, as well as old and sick people. These people are unable to produce things.

The health of the people who are involved in production is a serious concern. Diseases such as malaria make workers feel tired and in some cases, can lead to death. In recent years, in Papua New Guinea and elsewhere, HIV/AIDs have become a very big problem. There are already a few confirmed cases of HIV/AIDs in Solomon Islands. Unless people are careful, this disease may soon spread throughout the country. This disease not only weakens the people who have it, but it also leads to early deaths. This leads to much unhappiness for the families concerned. In rural areas, if a father or mother is infected, this can affect the ability of the family to produce enough food. This affects the standard of living of the children, even though they may not be infected.

Another thing that affects the quality of the factor labour is the level of education in a country. When more people in this country become better educated and have more skills training, there will be more chances to increase production.



Figure 2.10 Schools can help improve the quality of the factory labour.

Capital in Solomon Islands

Capital refers to such things as tools and machinery. Anything made by people that can help in production is a form of capital. Factory buildings, and even irrigation drains, can be considered to be capital.

In this country, in traditional production, the capital used is quite simple. Digging sticks, spades, and axes are examples of simple capital. These things are not expensive. In some countries, the capital used is quite expensive. For example, it costs hundreds of millions of dollars to set up a factory to produce cars or outboard motors. Our country does not produce machinery. Most of the machinery used in factories here has to be bought from overseas.

It is only worthwhile to use expensive capital when a large number of goods are being made. Then the cost is spread over a large number of goods, so the cost of producing each item is low. However, it only makes sense to produce a large number of goods if there are a large number of people to buy those goods or if many can be exported. Solomon Islands has a small population, and this is the main reason it does not have expensive capital.



Figure 2.11 Robots are used to assemble cars. This equipment is expensive.

Enterprise in Solomon Islands

Enterprise is a key factor of production. The entrepreneur is the business person who organises production. There are many successful business people in this country, but more are needed if the country is to speed up its development. Many successful business people start small, and then gradually build up their business. This is good, not only for themselves, but for the country as a whole.

If more people in this country start up businesses, they will produce more goods and services. If there are more goods and services, more of people's needs and wants will be satisfied. As the level of education improves, this should help more people to become entrepreneurs.



Figure 2.12 This person is an entrepreneur. More are needed in this country to organise production.

Activity 3

- 1 Which factor of production does Solomon Islands have the best supply of?
- 2 What could lead to an improvement in the quality of both labour and enterprise?
- 3 Why is it difficult for a country like Solomon Islands to have a good supply of capital?
- 4 The health of people is important for many reasons. Which factor does it have the most impact on?
- 5 Which factor is said to be the most important? Why?
- 6 Trace the map of Solomon Islands below into your exercise book. Write the title: "Location of some Natural Resources". Find the locations where gold, seaweed and oil palm are found, and the areas that are popular with foreign tourists. Label them on your map. Your teacher may need to help you find some of this information.



Figure 2.13 Solomon Islands

Renewable and non-renewable resources

Activity 4

- 1 Many old people say that when they were young they could catch a lot more fish on the reefs than we can today. Why do you think this is?
- 2 If we allow logging companies to cut down all our trees, we will not have any timber to build houses. How can we continue to cut trees but also make sure we still have timber in the future?
- 3 The Gold Ridge Mining company is mining and exporting gold from Guadalcanal. Can we replace this gold once it is used up? Explain your answer.

There are two types of natural resources. **Renewable resources** are resources that can last forever. If we take some fish from a lagoon, baby fish will be born and will grow up. If some of these fish are caught and eaten, there is no problem. More fish will be born to take their place. This can continue forever. This kind of resource can renew itself.

A big problem comes about if people are too greedy. If people take all the fish from a lagoon, no baby fish will be born. Then there will be no fish. There will no longer be a resource for people to use. This could mean that people will go hungry.

We want to keep a renewable resource so it can be used by people in the future. The best way to do this is to **manage** this resource. This word simply means to look after. We use this word a lot in business. You might hear someone talk about "managing a business". This means they are looking after that business. Renewable resources also need to be managed. They need to be looked after.



Figure 2.14 Forests are renewable, but only if we manage how we use them.

We can look after these resources by not using too many or too much of them. Living resources can renew themselves. They are **sustainable**, which means they can continue into the future. Solomon Islands needs development. This will help people to have a higher standard of living. However, the development needs to be sustainable, or the improvement will not last. Think of the lagoon. If all the fish are caught, there can be a big feast. People will be happy for a little while. But the next week they will be hungry again. Now there are no fish left in the lagoon. And what is worse, there will never be fish again in that lagoon!

Other renewable resources include our forests. They can produce good timber. New trees can be planted to take the place of the ones that have been taken. Forests can be managed. They can give us sustainable development. However, if all the trees are cut down, there can be a big problem. Heavy rain can wash away the soil. New trees cannot be planted. The resource is no longer renewable.

Non-renewable resources

A **non-renewable resource** is one that can never come back after it has been used. When gold or any mineral is taken from the ground, it is gone forever. It cannot renew itself. Eventually, all the oil on Earth will be used up because it is a non-renewable resource. This will not happen for many years. People in other countries are now looking to find different resources to use instead of oil. When something can be used instead of something else, it is said to be an **alternative**. In the future, cars and trucks will need an alternative fuel because we will run out of oil.

Activity 5

- 1 Write down four examples of renewable resources.
- 2 Write down three examples of non-renewable resources.
- 3 How can fish, clams, and other marine products be managed in order to keep them for the future? Discuss this in a group. Have one person write down your group's suggestions.
- 4 Solomon Islands needs to use resources in a sustainable way. What does this mean? Write down an example of sustainable development.
- 5 When non-renewable resources eventually run out, what will people have to do?

4 Types of production

There are three main types of production: primary, secondary, and tertiary.

Primary production is the taking of raw materials from the Earth. It involves growing crops, raising animals, getting timber from the forests, fish from the sea, and minerals from the ground. Although it is concerned with land (the factor of **production**), all the other factors of production are also involved in primary production. For example, capital in the form of nets, fishing lines, hooks, and a boat are needed to catch fish.



Figure 2.15 Catching fish and logging are examples of primary production.

Secondary production (manufacturing) is using raw materials to make something new or different. It involves changing raw materials so that they may not even be recognisable in the new product. For example, a plastic chair looks different from the oil or the gas from which it is made. A bar of chocolate looks different from the cocoa pods and beans that are exported from Solomon Islands to Europe.



Figure 2.16 The Solomon Taiyo Cannery is an example of secondary production.

Tertiary production is concerned with the provision of services. In relation to both primary and secondary production, it may involve the transport of primary and secondary products from one place to another, such as shipping palm oil from Solomon Islands to Japan.

Tertiary production includes all services. The selling of products in a trade store, the repair of an outboard motor, a bus or taxi business, are all examples of tertiary production.

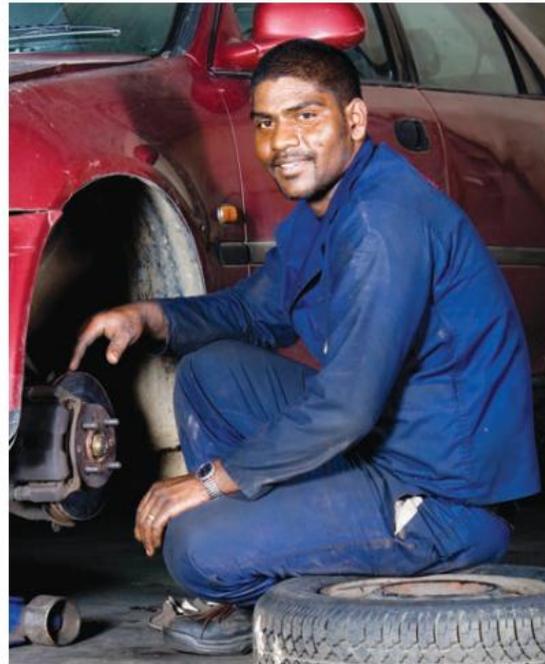


Figure 2.17 The repair of a car and people riding in a bus are examples of tertiary production.

Activity 6

Draw up a table in your exercise book like the one shown below. Then, place each type of production listed below under the correct heading. (The first one has been completed for you.)

Types of production

Primary	Secondary	Tertiary	Enterprise
Logging	?	?	?
?	?	?	?
?	?	?	?
?	?	?	?

DO NOT WRITE IN THIS BOOK

logging
baking bread
making shell money
drying a copra

collecting trochus shells
teaching
making a chair
making a fibreglass boat

putting on a concert
mining gold
printing a newspaper

writing up records for a business and for shipping

The production process

In any activity, all four factors of production are needed. In traditional times when making a garden, someone had to make a decision to make the garden in the first place (this is enterprise). The same person may also have done the work to clear the land and dig the ground, or they may have brought in their relatives to help with clearing the land (this is labour). They may have paid for the labour of the relatives by feeding them or granting them a piece of garden land to grow their food.

They would have needed a digging stick or spade (capital). And, of course, either vines or seeds, the soil, and water were also needed (natural resources). Traditionally, these same people would have made their own houses, built their own fences, made their own tools, and cut their own hair. In Chapter 1, we referred to this type of production as subsistence production. The end result of production taking place is the making of goods or the provision of a service.

Specialisation

When a person concentrates on making only one or two types of goods, or providing a particular service, that person is said to specialise. A specialist is someone who concentrates on one type of production. In traditional times there were some specialists, such as people who were good at making clay pots. There were also people who concentrated on making canoes, and there were traditional medicine men and women who provided a service.

Today some young people know how to use a chainsaw. They provide their service by cutting trees and producing timber for building houses in villages.

What are the benefits of specialisation? Firstly, the producer becomes very skilled in making that good or providing that service. As a result, they can work quickly and can produce more. They can increase the **quantity** produced. Quantity refers to the number of goods produced. Because they are expert at what they are doing, they also make better goods or provide a better service. In other words, the **quality** of the product improves. Quality refers to how well the good is made, or how good the service is. A specialist can produce more of the product than they need.



Figure 2.18 All these people are specialists.

Activity 7

- 1 Think of your village or a village you know. How many specialist people in it provide goods or services? List them.
- 2 Think of a town you know. Are most of the people who work there specialist or non-specialist?

Division of labour

Another important idea in how production takes place in the modern world is the **division of labour**. Division of labour takes place when the work required to make one product is done by several workers, each responsible for a different part of the production. One person cannot produce a product such as a bottle of soft drink, or a more complicated product like an outboard motor. With complicated goods, there may be hundreds of people employed to help make the product. Division of labour is used in all types of production. It is particularly important in secondary production or manufacturing.

Activity 8

Make an assembly line

Your class will need to work in groups of six. Each group is going to make some paper aeroplanes. Each group will be given one ruler, one pair of scissors, and one marking pen. These things will be the factor capital. Each group will be given six pieces of A4 paper. (These are made from wood so they are natural resources.) One student will choose the other five students to do different jobs. They will provide the factor enterprise. The other students will provide the factor labour. The different jobs will be as follows:

- Student 1** folds the paper in half, and uses the ruler to draw a line down the middle of the page.
- Student 2** uses the scissors to cut the paper into two pieces. The paper is then passed onto the next student.
- Student 3** folds each piece of paper in two, and folds back the paper to make a wing. Pass the paper to the next student.
- Student 4** folds the wing back a second time. Pass the paper to the next student.
- Student 5** uses the pen to decorate the wing. They must do the same pattern for each plane.

Note: Student 6 is the student who did the organising. They should be supervising the making of the planes. This kind of production is called an assembly line.



Figure 2.19 In an assembly line, each person adds something to the product until it is completed.

The most common form of division of labour was first developed by Henry Ford to make cars early last century. In an **assembly line**, the product is moved along inside a factory and each worker adds something to it until it is finished. Many workers are involved in the production of one car. The work needed to make the car has been divided up between many workers.



Figure 2.20 This is an example of division of labour.

Technology

The ways in which the factors of production are combined is called **technology**. This word is often used to describe the most up-to-date machinery such as the latest computers. However, technology has been around for a long time. The use of a digging stick to make a garden is an example of technology. A tractor can also be used to do the same thing. However, one person using a tractor can do more work than maybe a hundred people using digging sticks. Because new technology often leads to greater production, it usually receives a lot of attention.



Figure 2.21 In some parts of the country, solar panels may be more effective in producing electricity than petrol-powered generators.

When choosing what machines (or capital) to use in production, the entrepreneur has to be careful to use what best suits their situation. It may be possible to buy a very good machine from another country. However, if no one in Solomon Islands is trained to service that machine, then it may not be a good decision. (Refer to page 9 about complementary services.) Technology that best suits the needs of a particular situation is said to be **appropriate technology**.

Activity 9

- 1 Explain what an entrepreneur's role is in production.
- 2 List five examples of specialist workers. For example, carpenter—works with timber and builds houses
- 3 In the making of a traditional food garden, was there any division of labour? Explain your answer.
- 4 What are the main advantages of specialisation in production?
- 5 What is meant by the word technology? Give an example of traditional technology and an example of modern technology.
- 6 What is meant by appropriate technology?
- 7 Why is the most modern technology not always the most appropriate technology?

Activity 10

Division of labour

Your teacher will organise for you to visit a business nearby where a division of labour is used in the production of goods and services. As a class, you will be able to speak with the owner or operator and ask them questions. Your questions should include the following.

- What type of industry are you involved in and what skills do you have?
- Are you sharing the responsibility? How and why?
- What type of product do you produce?
- Do you enjoy the job?
- What activities do you enjoy in the industry? Is it fast or slow?
- What are your weaknesses?
- How can you improve the industry?

You should also come up with your own questions.

Working in groups, write a one-page report after the field trip and present it to the class.

Chapter summary

Chapter

2

Production is making goods and services to satisfy needs and wants. It involves the four main factors of production:

- natural resources
- labour
- capital
- enterprise.

A resource is anything that can be used for production of goods and services. There are two types of resources:

- renewable resources
- non-renewable resources.

There are three main types of production:

- primary production
- secondary production
- tertiary production.

Specialisation is when someone concentrates on producing just one or two types of goods or services.

Division of labour involves specialisation where different workers do specialised tasks in the making of one product.

Technology involves combining the four factors of production.

Glossary

alternative when something can be used instead of something else, it is said to be an alternative

appropriate technology technology that best suits the needs of a particular situation

assembly line a line of workers and machinery along which a product is moved as each worker or machine adds something to it until it is finished

capital a factor of production; it refers to tools or machinery

division of labour takes place when the work required to make one product is done by several workers, each responsible for a different part of the production

enterprise is a factor of production; it refers to the person who organises the other factors of production.

entrepreneur the person who organises the other factors of production. The entrepreneur provides the enterprise.

factors of production the four things needed to produce any good or service: natural resources, labour, capital, and enterprise

human resources the people who are involved in production. They can either provide the labour or the enterprise.

human-made resources the tools and machinery needed for production (can also be called capital)

labour a factor of production; it is the human effort needed to produce anything

manage to look after

manufacturing see *secondary production*, below

natural resources a factor of production; it refers to anything we get from the Earth or the sea (sometimes called land).

non-renewable resource a resource that once it is used can never come back

primary production taking raw materials from the Earth

production the making of goods or providing of services. Any activity that satisfies a need or want is production.

quality refers to how well made the good is, or how good the service is

quantity the number of goods produced

renewable resources resources that can last forever

resource anything that can be used in production

secondary production the use of raw materials to make something new or different

standard of living the level of comfort measured by the number of goods and services available to people in that country

sustainable capable of being continued into the future

technology the ways in which the factors of production are combined

tertiary production the provision of services

Solomon Islands Economic System

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define the following terms: economy, traditional economy and modern economy
- list the types and the characteristics of the economic systems in Solomon Islands
- explain the importance of the types of economic systems used in Solomon Islands
- describe historical accounts of trade and exchange in Solomon Islands
- discuss how barter as a system of exchange takes place
- list the advantages and disadvantages of the barter system
- differentiate between traditional and modern economic systems
- discuss how money is used in the modern economic system
- identify the goods and services which are provided by the government
- list the roles of government in an economy.

What do you know already?

In family and village life, who makes decisions about what should be produced?

Why do prices change in a market?

Can you think of examples of the price of a good going up very high? Why did this happen?

Can you think of examples of the price of a product falling very low? Why did this happen?

Do you know of any traditional examples of trade between different people living in different parts of Solomon Islands? What were some of the goods traded?

What are some things that the government produces (goods or services) in Solomon Islands?

Why does the government produce some goods and services?

Someone must decide what should be produced, how the goods will be produced, who will do the work, and how the goods will be shared.



Figure 3.1 Someone must decide what should be produced.



Figure 3.2 How will the goods be produced?



Figure 3.3 Who will do the work?



Figure 3.4 How will the goods be shared?

1 Introduction

In this chapter you will look at the economic system.

To help explain the economic system, let's look at the Solo family.

Mrs Solo works in the family garden and produces taro and cabbage. She uses these foods to help feed her husband, three children, and herself. If she produces more than she needs, she sells it at the local market.



Figure 3.5 Mrs Solo works in the family garden.

Mr Solo works at the local bakery packing and loading bread on to the delivery truck. He gets paid for doing his job.



Figure 3.6 Mr Solo works at the local bakery.



Figure 3.7 The local trade store

The money that comes into the family from Mr Solo working in the bakery and Mrs Solo selling some of her vegetables is used to buy needs and wants for the family. Every Saturday morning the family goes to the local trade store to buy their needs and wants. They buy goods such as bread, tuna, fish, rice, and one special Saturday, they even bought a CD player that had been made in Japan. Where do you think the bread was made?

At the local bakery where Mr Solo works, of course!

Jackson, the owner of the ABC store is very pleased to have the Solo family buy goods from his shop.

This is because after buying bread from the bakery, CD players from Japan, and many other things, he sells these to his customers for more money than he buys them for. The money he has left is his **profit**, which he uses to buy his needs and wants. Also the people in the CD player factory and the local bakery are happy. These people and businesses make up a part of the economic system.

Activity 1

Why are the owners and workers in the CD player factory and bakery happy?

We have learnt that we all have needs and wants for goods and services. This is the same in every country. Therefore, every country must produce many of the things its people need and want. But some countries cannot produce everything. For example, some countries are too cold to grow pawpaw or bananas and some countries don't have what is needed to make cars and machines. So a country has to buy the goods it does not produce itself from other countries. That's why ABC store had to get its CD players from Japan. In the same way, the Solo family buys the goods it cannot produce such as rice, fish, and clothing. Also, because Jackson's wife Meri has no garden, she must buy her vegetables from the market.

Remember, however, that countries, like people, must have enough money to pay for goods and services from other countries.

Activity 2

- 1 What needs and wants do you think the Solo family has? Make a list.
- 2 What happens to the taro and cabbage that Mrs Solo grows?
- 3 Does Mrs Solo pay for the things she grows?
- 4 What sort of things do you think she might need to help her work in the garden?
- 5 Where do you think she would buy them?
- 6 Where does she get the money to buy them?
- 7 What does Mr Solo get in exchange for working in the bakery?
- 8 What happens to the bread that the bakery makes?
- 9 What do you think the bakery does with the money it gets?
- 10 Jackson, the store owner, receives money from his customers when they buy goods. But who does he pay out money to? And why does he have to pay out this money?
- 11 CD players cost a lot of money. Can you give any reasons why?
- 12 Jackson's wife, Meri, who does not have a garden, buys her vegetables at the market. Some of the money Jackson gets from running his store sometimes ends up with the Solo family. How does this happen?
- 13 If Mr Solo did not work, would the Solo family be able to satisfy as many of their wants? Why?

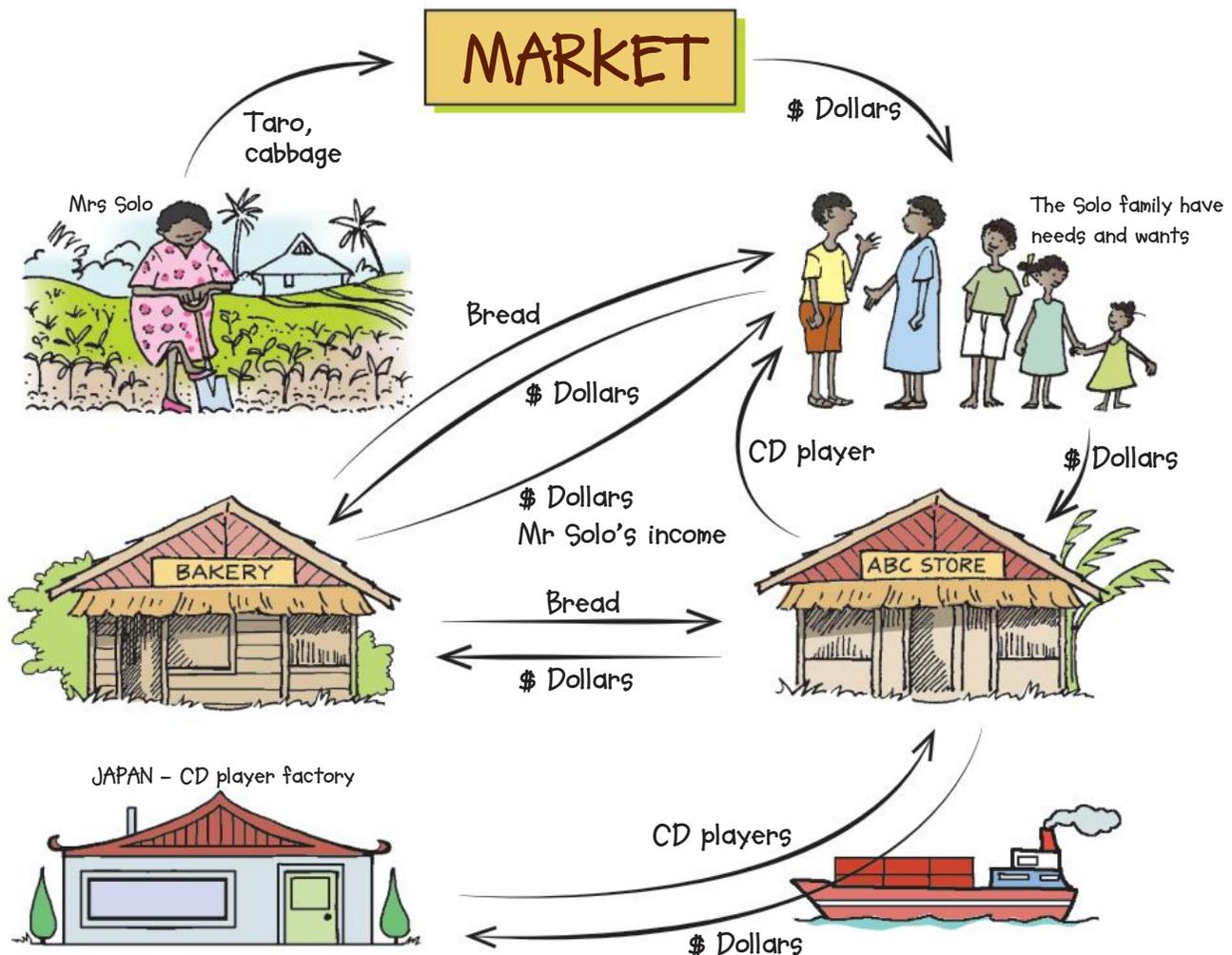


Figure 3.8 This diagram shows a simple economic system. Study it carefully.

Look back at Figure 3.8. You can see that in order to make goods and services there must be:

- production
- buying
- selling
- earning (or making) money
- transport (carrying goods or people from one place to another).

2 What is an economy?

Each country has its own **economy**. This is how production is organised to produce the goods and services needed to satisfy needs and wants. In Chapter 1 and in the story about Solo's family, you read about needs and wants. Goods and services are produced to satisfy these needs and wants. In Chapter 2, you saw how production takes place. Resources are needed to produce goods and services. You learnt how the factors of production (natural resources, labour, capital and enterprise) come together to produce goods or a service. We also have to decide what should be produced, how it should be produced, and how we share what is produced.

Our ancestors had to make these decisions. People in every country have to make these decisions. Businesses and governments have to make these decisions. The way in which a community makes these decisions is called an economic system. In the traditional economic system, people produce all the goods and services they need. This is called subsistence living. In modern economic systems, people still produce some of the goods and services they need. They also buy goods or services from other people. This is called a commercial economic system.

3 The traditional economic system

The traditional economic system is the way people organised things in the past. Now we are going to look at this system.

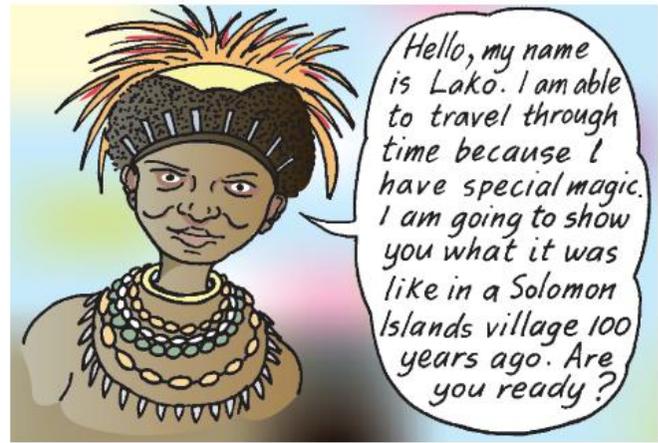


Figure 3.9 Mr Lako 100 years ago

Well, here we are. We have landed in a village of long ago. There don't seem to be many people about. But look over there—there are two men walking towards a house with some food placed in front of it. These men look very hungry.

If you look carefully at the picture you will see many things these villagers need to survive—different kinds of food, clothing, and shelter.

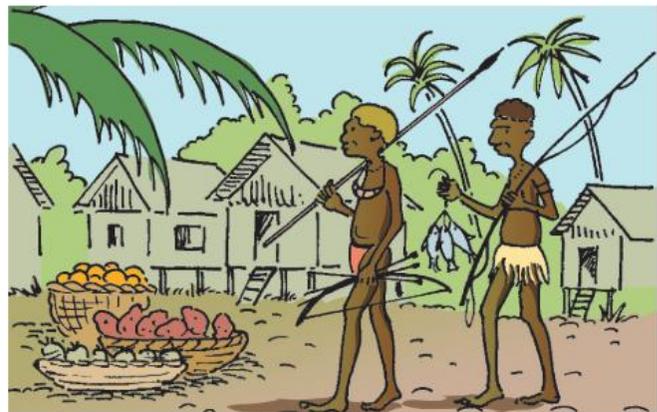


Figure 3.10 These villagers need different kinds of food, clothing, and shelter.

Activity 3

Look at Figure 3.10 and make a list of all the needs and wants you can see.

I wonder how many of you wrote down the spear, bow and arrow, and fishing line as a want. Let me explain—in this traditional society these people need bows and arrows and spears to hunt animals and protect themselves from their enemies. They also need things like custom medicine because they believe it will help them if they are sick.

So in this village of long ago, needs are a bit different. Not like today, of course; who needs a spear to kill an animal when you can buy a tin of corned beef at the local store? It is much less dangerous but, you need money to buy these kinds of things. And you don't need a bow and arrow to protect yourself these days—you can call the police if there is any trouble.

However, the people in this village do have some wants—things like necklaces, carvings, and head dresses. Much of this is decoration for rituals and ceremonies, almost the same as today. People put on their best clothes nowadays when they go to church or to a dance or feast.

Let us see how they produce these needs and wants.

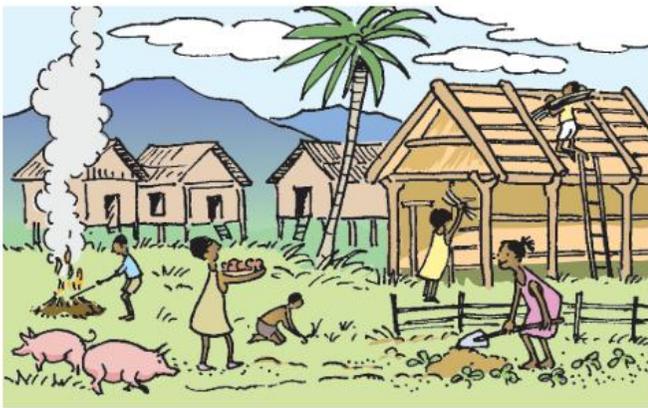


Figure 3.11 These villagers are satisfying their needs and wants through traditional ways.

Here we are in other parts of the village. These people are satisfying their needs and wants in traditional ways.



Figure 3.12 Carvers make carvings to sell for money.

Activity 4

Describe what the women in Figure 3.11 are doing and explain what needs or wants they are satisfying. Describe what the men in Figure 3.12 are doing and explain what needs or wants they are satisfying.

4 Traditional exchange

Subsistence agriculture and exchange

The people in this traditional village depend on farming the land for their food. They need this food to stay alive or to subsist. This type of farming is called subsistence agriculture, because each man and his family is able to subsist on what they grow. Once they have enough for this need, they can make things for other wants and needs and then they may have some left over to exchange or **barter**.



Figure 3.13 In subsistence agriculture, the individuals consume what they produce.

In traditional society, the idea of returning favour if something is given to you is important. If one clan gives pigs or food to a neighbouring clan, then one day this will be returned. It may take many years but no one will forget. So producers who give their **surplus** to others know that one day they will be paid back. People who have a **shortage** now may have a surplus later.

The Sula family works very hard in their garden. They produce more food than they need and therefore have some left to barter for other goods.



Figure 3.14 The Sula family working in their garden

The Sataka family is very lazy. They produce very little from their garden. In fact, they do not produce enough food to live on and rely on their *wantoks* to give them the extra amount they need.

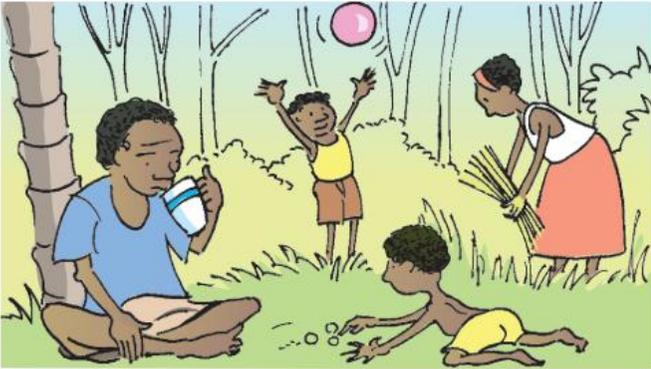


Figure 3.15 The Sataka family produces very little because they are lazy.

Activity 5

- 1 Make a list of the needs and wants that both families might be able to satisfy.
- 2 Which family would be able to satisfy more of their needs and wants?
- 3 Why would they be able to do this?
- 4 Which family do you think would have a better type of life? Give reasons.

Reasons for barter

There are three main reasons why barter took place.

Location

Different areas have different resources. For example, in some villages they had fish and in other villages they had kumara.

Activity 6

Make a list of resources that saltwater people (people who live beside the sea) had and a list of different resources that bush people (people who live inland) had.

Special goods and services

Barter was needed to get things that you or your family could not produce yourselves, such as custom medicine.

Activity 7

Make a list of special goods and services that a traditional family might want to exchange goods for.

Scarcity or shortage

In some villages, a landslide or flood might sweep away the gardens and there would be a shortage of kumara. If they wanted to get more they could go to another village and exchange some of their surplus goods, such as bowls or maybe pawpaw, for the kumara that they were short of.

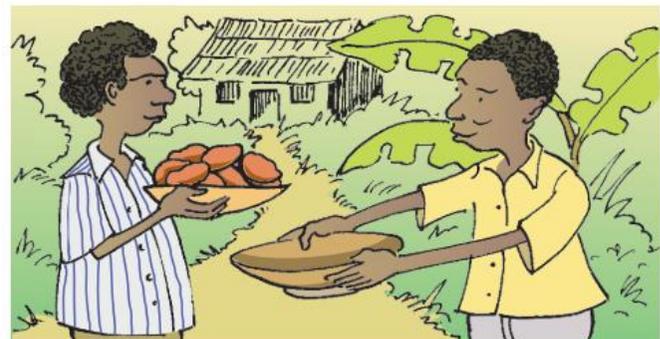


Figure 3.16 The exchange system

Activity 8

- 1 Make a list of advantages and disadvantages of the exchange system or barter system.
- 2 Look back at Chapter 1 and describe what the people in Roger's village might have done if they had had a shortage of leaf to make their houses.

Advantages of the barter system

- It encourages production. If a family knows that any surplus kumara it provides can be exchanged for fish, carvings, or other things it wants, then it will work hard to produce that good.

- ▶ It creates trade within a village and between villages and people can specialise in doing the jobs they are best suited to.
- ▶ It creates friendship and unity. Exchange means that people meet other people and get to know and understand them. Also, people specialising in the same job build up a sense of unity or togetherness.
- ▶ It provides a chance to own many things, or in other words, to be wealthy. The harder you work the more you produce. The more you produce the more you can exchange. The more you can exchange the more goods you will have. If you like owning many goods, then you will be satisfied.

However, in our modern society, exchange (or barter) is used less and less because there are some difficulties.

Disadvantages of the barter system

Difficulty with measurement

Activity 9



Figure 3.17 Two people are negotiating to exchange their goods.

- 1 Why are these people arguing?
- 2 Why is this a disadvantage of barter?
- 3 If you had one chicken, how many pawpaws would you exchange it for?
- 4 How can you decide?
- 5 If you had one can of cola, how many packets of chips would you exchange it for? How can you decide?

Finding a person who wants what you have to offer

Activity 10

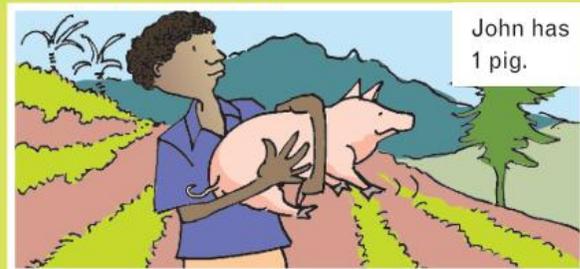


Figure 3.18 Finding a person who wants what you have to offer

John would like to exchange his pig for 5 chickens. Early one morning, he speaks to Ben but Ben doesn't want a pig, he wants some potatoes. John and Ben are unhappy because they are not able to exchange goods and they go off to look for someone else who has what they want.

Meanwhile, Anna arrives in the village and asks if anyone wants to exchange a pig for her potatoes. Eventually she finds out that John has a pig. She goes to see him, they talk about it and then John asks Ben to join them to work out an exchange. Late that afternoon they go home with their wants satisfied.

- 1 Explain what they did to make everyone satisfied.
- 2 State why what happened in this story is a disadvantage of exchange or barter.

Goods that are bulky or difficult to carry

When John went to see Ben he could not carry the pig so he had to put a rope around it and drag it most of the way.

Anna was very tired when she reached the village carrying her potatoes.

Ben was tired and covered in feathers when he went to see John and Anna.

The difficulty of storing wealth

Anna may be able to grow many potatoes in her garden but the ones that she doesn't need to eat will go bad and will be useless for eating unless she can exchange them.

John has many pigs but they must be looked after and properly fed if they are to get fat and stay healthy.

Ben's chickens wander everywhere and many of them disappear; some are stolen and often dogs kill and eat them.

Anna, John, and Ben all have difficulty **storing** their wealth.

Activity 11

Your teacher may provide you with cards that have already been made. If not, each student in the class may have to make one card like the one shown below.

Front of card

Back of card

Your teacher will tell which combination of



a "have" and a "want" you will put on your card, from the following list.

(If there are more students in the class,

the teacher will tell you what to write on your cards.)

Play the game

Walk around the classroom and try to find someone to barter with. After about ten minutes, the teacher will tell you to go back to your desk. The teacher will then ask who was able to find a partner to trade with.

Question

What do you think is the main problem with barter as a means of exchanging goods? Write down your answer in your exercise book.

Have	Want
sweet potato	clay pot
bananas	string bag
yams	spear
taro	arrows
cassava	tapa cloth
fish	fishing hook
crab	shell necklace
crayfish	traditional medicine
turtle	bananas
pig meat	yams
bananas	clay pot
yams	string bag
taro	spear

Have	Want
cassava	arrows
fish	tapa cloth
crab	fishing hook
crayfish	shell necklace
turtle	traditional medicine
pig meat	bananas
bananas	sweet potato
yams	clay pot
taro	yams
cassava	clay pot
clay pot	fish
fishing hook	crab
clay pot	sweet potato

Have	Want
traditional medicine	pig meat
shell necklace	cassava
taro	fish
arrows	fish
yams	pig meat
clay pot	crayfish
fish	traditional medicine
traditional medicine	crayfish
sweet potato	fish hook
fish hook	bananas
string bag	fish

5 Traditional money

When the British came to Solomon Islands, they brought their money with them. The use of money changed the traditional economic system of Solomon Islands. It changed the way the exchange of goods took place.

There had been traditional money in many places before the British came. But this traditional money was not generally used every day to get simple goods. It was used on special days, for example as bride price. Today, in some areas, shell money is used instead of modern money to pay for such things as school fees. However, the British money could be used at any time for anything.

The use of teeth from the spinner dolphin has in recent years increased. Traditionally, the teeth have been used for bride price. The price of one tooth in modern Solomon Islands dollars has been increasing. In Malaita, dolphin teeth have been used by some people to buy pigs, yams, and cassava. It has recently become popular with some people from other provinces as well.

This traditional type of money had many uses:



Figure 3.19a For bride price



Figure 3.19b As pay back or compensation



Figure 3.19c To buy land or to save and build up wealth

Activity 12

List all the things that people in a traditional society used their custom money for.

People used shell money, dolphins' teeth, and feather money because:

- it usually did not wear out
- it could be saved
- it could be stored easily.



Figure 3.20a Red feather from Temotu, traditional money



Figure 3.20b Tafuliae traditional shell money from Malaita Province



Figure 3.20c Modern money



Figure 3.21 Money is used to buy goods and services.

6 The modern economic system

In the traditional economic system, people produced all the goods and services they needed. In the modern economic system, people still produce some of the goods and services they need. This is called a subsistence economic system. They also buy goods and services from other people. This is called a commercial economic system.

The characteristics of Solomon Islands' economy is a mixture of three types of economic system. It still has a large subsistence part. As businesses develop, the "market" is becoming more important in a commercial system. Thirdly, the government also supplies some goods and services for people.

The subsistence sector

The word **sector** simply means part. Subsistence living still makes up a large part of the economy of Solomon Islands. However, very few people, if any, live a completely subsistence way of life. Even in far away villages, people use some trade store goods,

and certainly use steel axes, cooking pots, and even chainsaws. However, many people still depend mainly on the food they grow in their own gardens, and the fish they themselves have caught. They live in houses they have built, still using mainly bush materials. The subsistence sector will be an important part of Solomon Islands' economy for many years to come.

The commercial economic system

Look at the people in Figure 3.22. They are different from the people you have seen in some of the drawings in the previous two units.



Figure 3.22 A customer buying goods from a store

Activity 13

- 1 In what way do the people in Figure 3.22 look different from the people in Roger's house in Chapter 1 on satisfying needs and wants?
- 2 What kind of building are they in?
- 3 What do you think the woman on the right may be doing?
- 4 What sorts of things can you see on the shelves?
- 5 Do you think these people are involved in the traditional economic system? Give reasons for your answer.

In Chapter 1, we saw how people in traditional societies satisfied their needs and wants. They did this by:

- subsistence agriculture
- barter
- the use of custom money.

We also saw that their needs and wants were often different from the needs and wants we have today. Nowadays we still have needs but they are usually satisfied in different ways. We may like to satisfy our need for food with a tin of taiyo, instead of growing our own crops. But we cannot go to the local trade store and offer to exchange a fishing line for the tin of fish. Instead we must find money so we can pay for the taiyo.

Modern money

Today, goods are not usually exchanged for other goods. Goods are now exchanged for money. This makes trade easier. People do not have to find other people who want what they have and who have what they want. People can exchange their goods for money. They can use this money to exchange for the goods they want.

Today a person sells their surplus goods for money. They use the money to buy the goods they have a shortage of. Money is very important in commerce today.

Barter is still used in some parts of the country. People bring their surplus goods to market. They try to sell these goods for money. When the market is finished, some of the goods may not have been sold. Instead of taking these unsold goods back home again, the people barter them for other unsold goods.

However, in most cases people who want goods and services they cannot produce for themselves use money to buy what they want. The reasons why people buy things with money are similar to the reasons why traditional people exchanged goods. These are the reasons:

Location

Cotton for calico is not grown in Solomon Islands; it is grown in other areas of the world such as the United States and India. Solomon Islanders must get money and use this money to buy the cotton cloth or calico we need. We buy petrol from overseas because we have none here.

Special goods and services

To get nails and special tools for building, we have to buy them. To get education for our children, we have to pay for it.

Shortage

If we do not have enough to eat, we must buy food. If we do not have enough of anything we need, we must buy it.

Use of money

You can see that the people in Figure 3.22 are involved in the commercial economic system. The woman is buying goods from the man in the store. To get the goods she wants, she gives him money. She may have a garden where she grows some food that she consumes, but she also has money that she can use to buy other food that she wants, such as bread.

Activity 14

Make a list of five traditional and five commercial foods with which the woman in Figure 3.22 may satisfy her needs and wants.

Set it out like this. The first one is done to help you.

Traditional food needs	Commercial food wants
cassava	rice
?	?
?	?
?	?
?	?

The woman may produce food in her garden to satisfy her needs and wants but she also wants food that she has to buy in a store. This want can only be satisfied by paying money for the goods.

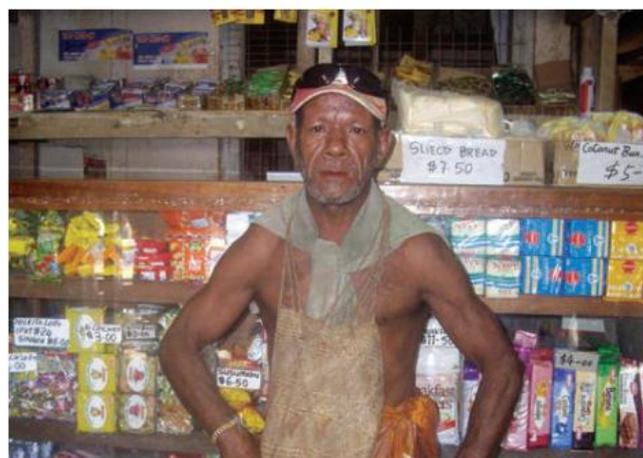


Figure 3.23 A traditional man in a shop

Figure 3.23 shows someone from a traditional type of society buying goods in a shop. Notice the clothes he is wearing: they are very simple. This is a very traditional type of clothing. The basic type of clothing for men in a village nowadays is a shirt and shorts. Women usually wear a simple dress. Most people in Solomon Islands wear this type of modern dress to satisfy their need for clothing because they live in a commercial economic system, and can often find money to pay for these clothes.

However, people who live in a commercial economic system often have money to buy other types of clothing that are not really needs, but are wants, such as jeans, hats, and sports shoes in Figure 3.24.



Figure 3.24 These goods are wants.

Activity 15

Make a list of other types of clothing that people want but don't need.

In Solomon Islands today, we can see examples of both types of house shown in Figure 3.25. The first photo shows a house built using traditional materials. The second one shows a house made of modern building materials. Traditional materials for building houses are different from modern materials.

Activity 16

Make a list of materials that would be used to build the traditional house and a list of materials that would be used to build the modern house.

We have already seen that people in traditional society also had wants. These differed from the wants we have today. In those days, people wanted things like a special dress for ceremonies, tattoos, ornaments, baskets, or eating bowls, whereas nowadays we want radios, tools, matches, lamps, and so on.

Activity 17

Look back at your answers to Activities 2, 3, and 4.

In your study of a traditional society, list all the traditional needs for food, clothing, and shelter in one column and modern wants for food, clothing, and shelter in another column.

We can now see that people in a modern society want to have more than the basic needs produced by a traditional economic system.



Figure 3.25 A traditional house and a modern house

However, most of these wants must be bought because they don't grow on trees or in the ground and they are not found in the sea. They must be produced using machines. For instance this book you are reading was printed on a printing machine and the clothes you are wearing were made by machines. Some needs and wants in the commercial economic system are different from those in the traditional system and must be produced in a different way. The people who make these goods must buy material, buy machines, and pay workers in order to produce them; therefore they cannot give them away free. That is why we must buy them. But how do we get money to buy them?

Commercial ways of satisfying needs and wants

In traditional society, a woman might have made shell necklaces in order to get goods that satisfied her needs and wants. She had to work to produce the necklaces.

In the same way, in the commercial economic system, people have to work to satisfy their needs and wants. If they work they receive a wage that is their reward for doing work. We call this an income. The money they get is used to buy the goods and services that help to satisfy their needs and wants. Remember Mr Solo? He received income from the work he did at the bakery.

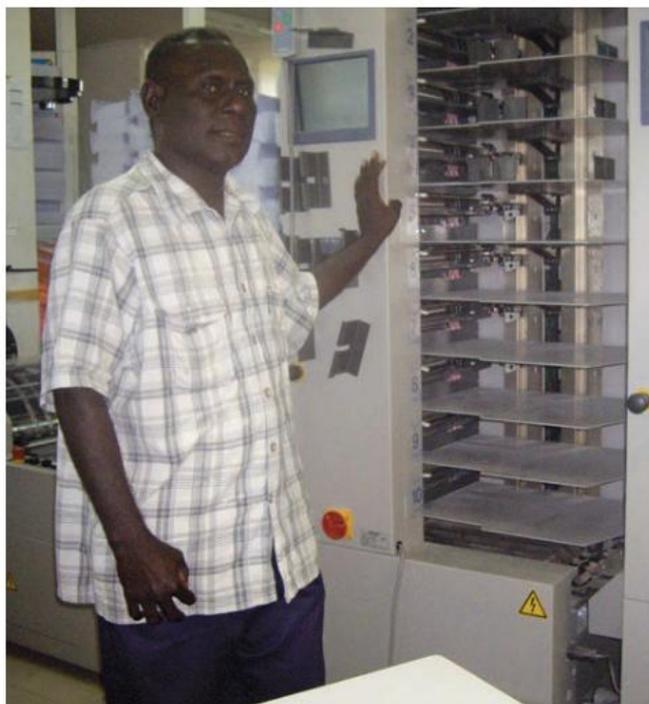


Figure 3.26 A man working in a factory

Activity 18

Look at Figure 3.26.

- 1 Is this man involved in producing a traditional good or a commercial good?
- 2 Where do you think he got the money to buy his modern clothes?
- 3 What does he have to do to get this money?

Activity 19

- 1 Make a list of eight jobs that people do to earn an income. Give an example of each job.
- 2 Discuss with a friend and list the jobs you did to earn an income in your village or in your school.

John's Story

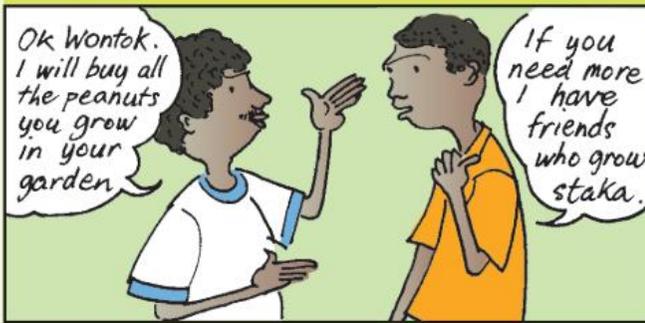
- 1 John is a clerk.



- 2 One day on his way home from work ...



3 He finds out if he can get fresh peanuts.



4 Then he then goes to some stores.



Demand is the amount of goods or services that consumers want or need.

Supply is the amount of goods or services that are offered for sale.

5 When John is satisfied there is a supply and demand for peanuts, he takes his savings to the machine shop and buys the peanut shelling machine. He takes it home and in a shed behind his house after work and at weekends, he shells and packs peanuts.



6 Many people like John's peanuts and the store owners who sell them want John to supply more ...



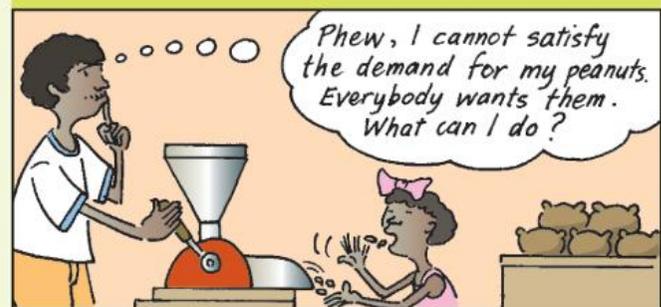
7 As the demand for his peanuts grows, John decides he will have to spend all his time producing bags of nuts. So he resigns from his job.



8 At the end of the month, he works out how much **profit** he has made. He tells his friend George.



9 Later back at work ...



Some people, like John, have their own business, which they organise themselves. Profit is the reward for producing goods or services in a business.

Let's look at what John has done.

He has bought resources called peanuts from farmers and used a machine that takes the shells off the nuts. He packed the peanuts into bags and sold them to stores. By taking the shells off the nuts, he has increased the value of the nuts. People who buy nuts are prepared to pay more for them because they don't have to take the shells off before they eat them. If John decided to put salt in the nuts they would be even more valuable because many people like to buy salted peanuts. However, he would have to spend more time doing this job and also spend money on buying salt. This is why tinned fish often costs more to buy than fish straight from the sea. It has to be cut up and cleaned, oil must be added and then it is packed into tins, which cost money to buy.

Activity 20

Make a list of six goods that become more valuable when more money, time, and work is spent on processing or changing them. Two have been completed for you as examples.

Resources	Processed goods
tobacco	packets of cigarettes
logs	furniture
?	?

The more work, time, and money spent on making goods, the more valuable and costly they become.

John has decided to set up his own business. As a clerk he earned an income that was paid to him by his boss for the work he did. Now that he is a businessman, he earns a profit. This is the income he receives from selling his goods after he has deducted his expenses. He organised the business and his profits.

Activity 21

Look carefully at the previous cartoon about John and answer the following questions.

- 1 Why did John go and see his *wantoks* and some store owners before he decided to buy the machine?
- 2 Where did he get the money to buy the machine?
- 3 How many bags of nuts did he supply at first?
- 4 Why did he decide to resign from his job?
- 5 How much income did the shopkeeper earn on each bag of nuts he sold? How much income would he earn if he had sold 100 bags of nuts?
- 6 What was the value of John's sales of peanuts at the end of the month?
- 7 How much did it cost him to produce the peanuts that he sold?
- 8 What was his income? What were his expenses? What was his profit?
- 9 How do you think John can solve the problem of not being able to produce enough peanuts?
- 10 Why were the nuts sold in the stores more valuable than the nuts that John's *wantoks* sold to him?
- 11 Whose wants is John satisfying?

Needs and wants are satisfied in the commercial economic system by earning an income or making a profit.

7 The role of the government in the economy

To make the rules (laws)

You have now learnt about the factors of production and the trading of products. These factors cannot be organised without some rules of conduct. Just imagine trying to play a game like football or volleyball without

rules. It would be a mess. And even when both teams agree on the rules, there can still be disputes, so it is necessary to have a referee. Rules are needed for business. Some of these rules of conduct were first established by the businesses themselves. Others are made by the government. The government passes laws through parliament. The aim is to keep the people who own businesses honest. Some laws are also aimed at protecting members of the public. To help settle disputes between businesses, or between a person and a business, or even between a business and the government itself, we have a court system. The courts act like a referee or umpire.



Figure 3.27 A referee is needed to control a game of football.



Figure 3.28 The parliament passes laws (or **legislation**) that set the rules that business must follow.



Figure 3.29 The Supreme Court acts as an umpire.

To provide goods and services not provided by business

Some goods and services are not provided by business. This is because there would be no profit to the business in doing so. Some of these goods and services are provided by the government. Important services such as education and health care are often not provided by business. There can be private schools and hospitals that act like businesses. However, only rich people have enough money to pay for these services. Many people would miss out because they simply do not have the money. Because things such as education and health are important for the development of the country as a whole, the government has stepped in to provide these important services.

The government provides services through government departments and government businesses. It has many ministries. For example, the Ministry of Education looks after education, the Ministry of Works looks after works and maintenance and the Ministry of Health looks after the health system. Each ministry has a particular area to look after.



Figure 3.30 Government ministries

Some government ministries may charge fees for use of their services. Another way the government collects money is through tax. A **tax** is money paid to the government by people who work in the formal sectors and businesses.

The government has also established many businesses to provide services to the public. These businesses are called **statutory bodies** and they are corporations established by an **act of Parliament**. These businesses are: Solomon Islands Broadcasting Commission (SIBC), Solomon Airlines, Solomon Islands Water Authority (SIWA), and Solomon Islands Electricity Authority (SIEA).

To provide infrastructure

The government provides goods and services to business and the rest of the community. These goods and services are referred to as public goods or **infrastructure**. For example, roads, airfields, ports, and communication networks are needed by businesses in order to carry on their business. These things are also needed by the rest of the community. Things like roads, wharves, and airfields are needed for goods to be transported. People living in Honiara need to be able to visit their families who live on outer islands. The community and businesses also need a power supply and water. There needs to be a system to collect waste. All of these things make up the infrastructure of a country.

These are all examples of infrastructure.



Figure 3.31a Point Cruz Wharf



Figure 3.31b Honiara International Airport



Figure 3.31c Powerlines



Figure 3.31d Roads

Activity 22

- 1 List all the services you use that are provided by the government.
- 2 List any goods you may buy from the government.
- 3 List any large buildings or other structures or systems (called infrastructure) built by the government in your area.

Activity 23

Field Trip

If your school is in or near Honiara town, complete the questions under Option 1; otherwise complete the questions under Option 2.

Option 1—Urban schools

- 1 Visit Parliament House and see how it is organised. Ask questions such as the following.
 - Who makes the laws of Solomon Islands?
 - How are laws made?
 - How are changes to laws made and how does the government of Solomon Islands pass new laws?
 - How do they regulate laws?
 - Who makes the laws for the businesses in the country?
- 2 Write an essay about the field trip on how the government makes decisions on the law

of the country. What consequences does a citizen of Solomon Islands face when they break the law?

Option 2—Rural area school

- 1 Visit any rural area in the community and ask permission to interview the village chief. Ask the chief about how decisions are made about the rules in the village or the community. Are the rules written down? Ask him to explain the reason for his answer. Who makes the decisions and how does the community address any issues in the village?
- 2 Write an essay on how decisions are made by the chief in the village. Also, explain who makes the rules and list the types of rules that the community must follow. What consequences do people in the community face if they break the rules?

Chapter summary

Chapter

3

An economic system is the way in which a community makes decisions on how to satisfy needs and wants.

In Solomon Islands, people still use the subsistence economic system, where people depend (subsist) on what they produce.

The Solomon Islands economy is a mixture of the main types of economic system. These are subsistence, commercial, and mixed economies.

The subsistence economic system has its own ways of satisfying people's needs and wants.

Needs and wants are satisfied in the commercial economic system by earning an income or making a profit.

The reasons for barter are:

- location
- to get special goods and services
- scarcity or shortage.

The advantages of the barter system are that:

- it encourages production
- it creates trade
- it creates friendship and unity
- it provides a chance to own many things.

The disadvantages of the barter system are:

- difficulties with measurement
- the necessity to find a person who wants what you have to offer
- the problems of exchanging bulky goods that are difficult to carry
- the difficulties of storing wealth.

continued next page

Chapter summary continued

Chapter

3

The barter system, as a traditional way of trading or exchange, is still used in some parts of Solomon Islands.

In traditional economy, societies solved the problems of barter by using traditional money.

The advantages of traditional money are that:

- it does not wear out easily
- it can be saved
- it can be stored easily
- it is usually accepted in exchange for goods and services
- it is easy to carry
- it is difficult to produce.

Traditional money has many of the same features as modern money.

Government plays a major role in an economy by:

- establishing rules needed to operate a business
- settling disputes between businesses or a person and business, and even within the government itself, through the court system.

The government provides goods and services that are not provided by businesses, such as education, national security, health, and infrastructure, because it is important for the development of the country.

These services are provided through the government ministries and businesses.

The government charges fees for these services and collects money through taxes.

Businesses owned by the government are called statutory bodies.

Glossary

act of Parliament law passed by parliament

barter a type of exchange when one good is given in return for another

demand the amount of goods or services consumers want or need

economy how production is organised to produce the goods and services to satisfy needs and wants

infrastructure services and facilities that allow business to function

legislation laws passed by parliament

profit the reward for producing goods or services

sector a part of something bigger

shortage when there is not enough of a certain kind of good

statutory bodies corporations established by an act of Parliament

storing when people put goods away for later use

supply the amount of goods or services that producers make and offer for sale

surplus the extra goods that a person produces

tax money paid to the government by people and businesses

Accounting



Figure 4.0 An accountant in his office

The next two chapters introduce you to the subject of accounting. In the first three chapters, you looked at the role businesses play in the economy. You were introduced to a subject called “economics”. Economics is about making choices and decisions. You looked at how goods and services are produced. Accounting helps businesses by providing them with information. Information is needed so that people can make good decisions. There are two types of recording systems. First, we will look at single-entry bookkeeping, and in Year 9 we will look at double-entry bookkeeping.

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define business documents, profit, expenses and revenue
- explain the importance of business documents
- discuss the purpose of bookkeeping and the need to record transactions
- explain the use of different business documents
- list examples of cash and credit documents
- complete a simple receipt.

Introduction to bookkeeping

What do you know already?

Why do some people set up trade stores or run buses?

Can a bus owner spend all the money they receive on other things?

What does a trade store owner have to spend money on before anything can be sold?

How does a business owner know if their business is successful or not?

Example: Mary takes ten pineapples to the market. She sells them for \$5.00 each. She had to pay \$6.00 to the bus owner who took her from her village. And she will pay another \$6.00 to get back again. She also had to pay \$5.00 to get into the market. How much money does she end up with?

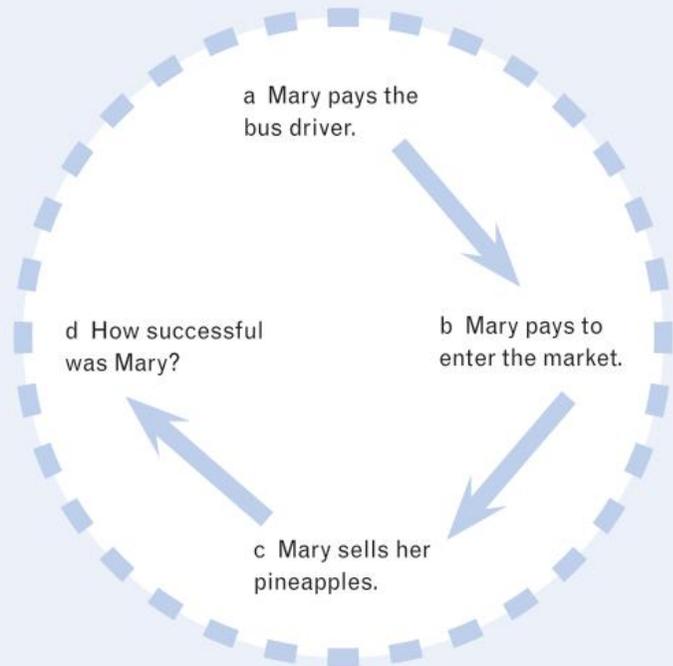


Figure 4.1 This is how Mary spends her expenses and earns her revenue.

1 Introduction

People get many of the goods and services they consume from businesses. Why do businesses do what they do? Why did Mary, in the example to the left, take her pineapples to the market? Businesses make goods. They sell goods and they also provide services. Businesses make goods and provide services in order to make extra money called **profit**. This chapter will look at how businesses know whether they have made any profit or not. It will look at the importance of record keeping.

2 Profit

Revenue

Businesses produce goods and services to sell for money. This is how businesses get their money. The money that comes into a business from selling goods or services is called **revenue**. A trade store owner gets revenue from selling rice, tins of fish, and sugar. The money people give to him is his revenue. Wood carvers get their money from tourists who buy their carvings. The money they get from tourists is their revenue. A bus owner gets revenue from the passengers who are carried in their bus. The passengers pay money for taking them into town or back to their village. This money is revenue.



Figure 4.2 A bus owner gets revenue from passengers.

Expenses

Business people have to do some work or buy some materials before they can produce a good to sell. Wood carvers have to either make or buy tools before they can produce a carving to sell for money. A trade store owner has to buy goods before they can sell them again in their store. A coffee grower buys plastic to help dry the coffee beans. A bus owner has to pay for petrol before any passengers can travel on the bus.

A business person usually has to pay out some money before they can get any revenue. Any money that a business person pays out is called an **expense**. Some business people have many expenses.

For a bus owner, buying petrol is an expense. The money that a trade store owner pays for goods is an expense. A land owner may ask people to help collect coconuts to make copra. Any money that is paid to them is an expense.

An expense is the money that a business person pays out that will help the business. It is *not* an expense if a business person buys a radio. A radio will not help his business. If a bus owner buys petrol, this is an expense. They must have petrol to drive the bus.



Figure 4.3 For a taxi business, buying petrol is an expense.

Profit

Business people get revenue from selling goods and services. But they must pay for expenses before they can get this revenue. The difference between the revenue and expenses is extra money. A business person can keep this money for themselves. This extra money is called profit.

Profit is equal to revenue less expenses:
 $\text{profit} = \text{revenue} - \text{expenses}$.

Let us look at the example of Mary again. Mary takes ten pineapples to the market. She sells them for \$5.00 each. Her revenue is \$50.00.

She had to pay \$6.00 to the bus owner who took her from her village. And she will pay another \$6.00 to get back again. She also had to pay \$5.00 to get into the market. Her total expenses come to \$17.00.

What is her profit? Her revenue is \$50.00. Her expenses are \$17.00. The extra money she has is \$33.00 (\$50.00 – \$17.00). Her profit is \$33.00.

Profit is the extra money that a business person gets. All the expenses must be taken away from the revenue before they can see how much profit they have made.

Sometimes a business person has more expenses than revenue. If this happens we say that the person has made a **loss**.

Business people do not like making losses. A business person cannot keep making a loss year after year. If this happens, they will lose all the money they have put into the business. The business will have to close down.

Activity 1

- 1 Think about the people in your community. How do they earn an income? List five different ways people earn money.
- 2 List some of the commercial crops grown in your area. What are the prices like for some of these crops at the moment: are they high or low? Do you know why the prices are like this?
Discuss this with your classmates or with your parents at home.
- 3 How do bus owners get their revenue? Write down five expenses of a bus business.
- 4 Rita goes to the market. She sells eight pawpaws for \$5.00 each. She paid \$6.00 for a bus to get to the market, and she will have to pay another \$6.00 to get home again. She paid \$4.00 entrance fee to get into the market. While she was there, she bought an iceblock for \$2.00.
 - a How much is Rita's revenue?
 - b How much are her expenses?
 - c What is her profit?
 - d Why do we say that the \$2.00 she spent on the iceblock is not an expense?
- 5 Paul owns a trade store. On Monday, he bought \$275 worth of goods. He paid \$30 to a truck driver to bring the goods to his store. He bought paper bags for \$20, to sell rice in. By the end of the week, he had sold all his goods. He had \$302 in cash from selling the goods.
 - a How much is his revenue?
 - b Write down all his expenses. Then add them up.
 - c What was his profit for the week?

3 Transactions

A **transaction** takes place any time something is bought and sold. Most businesses have to spend money before they can receive money. When a business buys goods, this is a transaction. When a business buys paper bags, this is a transaction. When a business pays for the electricity it uses, this is a transaction. When a business pays money to one of its workers, this is a transaction. When a business sells a good and receives money, this is a transaction. When a business sells a service, this is a transaction.

Every transaction results in money changing hands from one person to another. This handing over of money may happen at the time the transaction takes place. (These are called **cash transactions** and will be looked at later in this chapter.) The handing over of money may take place some time after the transaction has taken place. (These are called **credit transactions** and will be looked at in Chapter 5.)



Figure 4.4 A bus business has many transactions every day. A farming business may not have many transactions every day.

Activity 2

- 1 Look at the photo of the bus business in Figure 4.4. List four transactions that would take place in such a business. (Some of these transactions may involve expenses, and some may involve revenue.)
- 2 Look at the photo of the farmer in Figure 4.4. List four transactions that might take place in such a business. (Some of these transactions may involve expenses, and some may involve revenue.)

4 The need to record transactions

Bookkeeping is about keeping records of business transactions. There are two reasons for keeping accounts or records. The first reason is that recording provides information about how the business is going. This information allows decisions to be made. Information is needed for *decision making*. The second reason is that keeping records allows for control. It is important that the owner of the business knows where their money has gone. It is important that all money can be accounted for. So a very important reason for bookkeeping is **accountability**. This means being able to explain how money was used.

Bookkeeping is important for decision making and for accountability. However, to be helpful, the information must be accurate, and it must be provided within a reasonable amount of time.

For larger businesses, the word “accounting” is used instead of bookkeeping. The person who is responsible for the records of a larger business is called an accountant. An accountant is well trained and usually has a college diploma or a university degree.

A bookkeeper records all the transactions that take place in the business. They do not need to be as well trained as an accountant, and may keep very simple records. This kind of bookkeeping is called single-entry bookkeeping. For very small businesses one person is often the owner, manager, bookkeeper, and worker all in one. All of these roles are important for the success of the business.

Information for decision making

If you are selling a number of products, which one is making the most profit for you? Are you making a loss on any of your products? Should you change the selling price? Could you cut down on any of your expenses? This would lead to more profit. Are you getting enough profit to make all your work worthwhile? Would your revenue increase if you employed more staff? All of these questions require a decision to be made. Bookkeeping and accounting can provide the information needed to make the best decision. But this information will only be useful if you get it on time and if it is accurate.



Figure 4.5 How could I be doing things better?

A business person should be accountable. This is true even if the money belongs to that person. However, it is even more important if a person is looking after money belonging to other people. Bookkeeping and accounting allow a person to account for all the money that comes through the business. However, money can still be lost if bad decisions are made.

It is important for a person to know where their money has gone, and what it has been spent on. A person should be able to explain what has happened to the money they were in control of. If the business makes a loss, at least the person can explain where the money went. If a person cannot explain where money has gone to, other people may think it has been stolen or carelessly lost.

Activity 3

- 1 What does a bookkeeper do?
- 2 Explain the difference between a bookkeeper and an accountant.
- 3 What is meant by the idea of accountability? Why do you think this is very important in a business situation?
- 4 Why do people need information to make decisions? Give two examples of how information is useful in making decisions.

needs of the business. For a very small business, a simple cash book can be used to record money coming in and money going out of the business.

A simple way of keeping a record is shown below.

Example John has been keeping a record of his fruit and vegetable business for the month of March. He keeps his record in an ordinary exercise book. Figure 4.6 shows what the page for March looks like.

The total revenue came to \$34. His total expenses came to \$16. He made a profit of \$18 for the month of March. He can use this money to buy what he wants. By keeping a record, he knows how much profit he has made.

John may have already spent some of his profit by the end of the month. He may have bought some food or some clothing. But money spent on food or clothing is not an expense. It should not be recorded in his book. It is important that all business people keep a record of their expenses and their revenue.

5 Basic cash book

The most basic record about cash transactions is called the cash book. There are many ways in which a cash book can be set out. It really depends on the

Cash book: John Suruka's fruit and vegetable business

Date	Revenue	\$	¢	Date	Expenses		\$	¢
					\$	¢		
2012 March 1	Total revenue	34	00	2012 March 3	16	00	16	00
A profit = Revenue – Expenses = \$34.00 – \$16.00 = \$18.00 Profit for the month of March = \$18.00								

Figure 4.6 A page from John Suruka's cash book for his fruit and vegetable business

Activity 4

- 1 Why is it important to keep a record of revenue and expenses?
- 2 Rule up your exercise book with the same headings as in Figure 4.6. Raka has the following expenses and revenue for his bus business.

June 1	Bought petrol	\$200.00
	Money from passengers	\$180.00
June 2	Money from passengers	\$220.50
June 3	Money from passengers	\$190.50
June 4	Repair of tyre	\$112.00
	Money from passengers	\$230.40
June 5	Money from passengers	\$220.00
June 6	Bought petrol	\$250.00
	Money from passengers	\$180.50

June 7	Paid driver	\$550.00
	Money from passengers	\$310.90

- a In your exercise book, record all of Raka's expenses on the right-hand side of the page. Record all of his revenue on the left-hand side of the page.
 - b What was Raka's profit for the week?
- 3 Rita Wakunianda has started a small dressmaking business. She is allowed to use the school's sewing machine on the weekends, but must provide all the other materials herself. These are the transactions that have taken place so far:

- March 1** Puts \$100.00 of her own money into the business.
2 Borrows \$80.00 from her uncle.

- 5 Buys cloth for \$85.00.
- 6 Buys buttons and thread \$25.00
- 15 Sells Mary a blouse for \$45.00.
- 17 Sells a lavalava for \$15.00.
- 21 Sells a shirt for \$40.00.
- 26 Buys more material for \$120.00.
- 29 Sells all remaining dresses for \$165.00.

a Record the transactions above into a simple cash book like the one shown in Figure 4.6.

b What would be Rita's cash balance at April 1? (The word **balance** means how much cash she has at that time.)

4 John Kaiye has started a small business project, making coconut scrapers. He needs your help to do a cash book. From the information below, write up a simple cash book for him. Show his cash balance at the end of June.

June 1 Starts with \$60.00 of his own money.

- 1 Borrows \$140.00 from his friend, Peter.
- 2 Buys \$95.00 worth of timber from Building Supplies Company.
- 4 Buys some second-hand tools for \$50.00.
- 6 Buys sheet metal offcuts to be used as the scrapers for \$45.00.
- 8 Sells his first two assembled scrapers for \$35.00 each.
- 15 Sells three more scrapers for \$30.00 each
- 23 Sold four more scrapers for \$35.00 each.

A number of documents can be used to record any money that is received by a business. The main document is called a **receipt**. A book of blank receipts can be purchased from stationery shops. Each receipt is numbered.

Space the name of the business receiving the money.

Space for the date of the transaction

A number is given to each document.

Receipt No. 13400

.....

..... 20

.....

Received by cash
by cheque from

.....

the sum of.....dollars

.....cents

being.....

per \$ ____

With thanks signed:.....

Space for a person's signature (name). This person should work for the business.

Space for the reason the money has been received (what goods were bought?)

Figure 4.7 An example of a blank receipt. The details need to be written down. The receipt needs to be numbered.

When a consumer buys an expensive product, they should ask for a receipt, which proves that they have paid the money for the product. A receipt is a document which sets out:

- the amount of money paid
- the reason for the payment
- the name of the person making the payment
- the date the money was paid
- the signature of the person receiving the money.

The first receipt that many people get is for payment of school fees. A receipt can be used to prove ownership.

6 Cash documents

Receiving money

For most businesses, any money coming into a business for any reason has to be recorded on a **document**. A document is simply a piece of paper on which information about a transaction is written. Different documents are used for different transactions. In this chapter, the most common documents used for cash transactions will be discussed. In the next chapter, documents used to record credit transactions will be discussed.

Isabel Designs **Receipt No. 124**
 PO Box 662
 Honiara 9 May 2012

Received by cash
 by cheque from

Peter Narai

.....

the sum of..... fortydollars

.....cents

being..... 2 T-shirts (Hibiscus design)

per \$40.00

With thanks, signed: *Mary Nele*

Figure 4.8 An example of a completed receipt

Two copies are made of the receipt. The original copy is given to the person from whom the money has been received. The second copy, or carbon copy if carbon paper has been used to make the second copy, is kept by the business. Information is taken from this copy and entered into a cash book. Larger businesses use computers to print off copies of these documents.

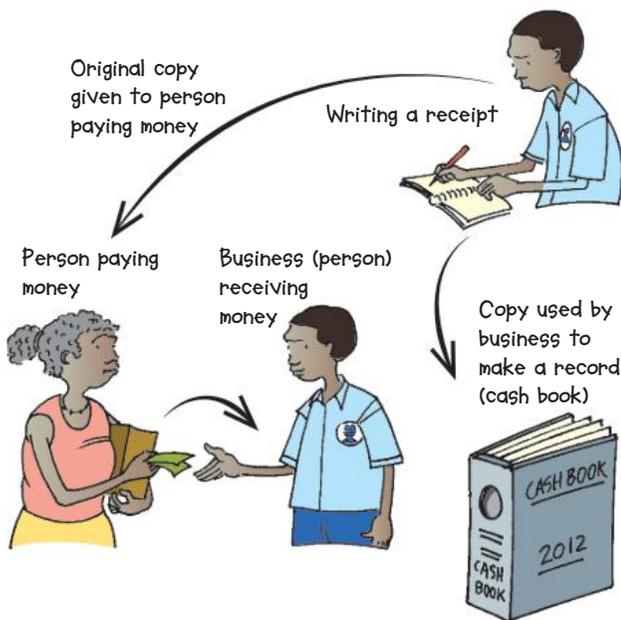


Figure 4.9 A copy of the receipt is given to the person paying the money. The second copy is kept by the business and used to keep a record.

A **cash register docket** (or **tape**) is also a type of receipt. This is the small piece of paper that is printed by the cash register machine in the shop. Only larger shops use a cash register machine. It does not have the name of the buyer written on it, but it may contain a description of the goods bought, the date of purchase, and the amount paid.



Figure 4.10 A cash register docket or tape

The image shows a cash sale docket form. At the top right, the number '991' is printed. Below it, there are fields for 'NAME' and 'DATE'. Under 'NAME', there is a field for 'ADDRESS'. Below 'ADDRESS', there is a field for 'CITY, STATE, ZIP'. Below that, there is a row of checkboxes for 'BUILT BY: CASH', 'C.O.D.', 'CHANGE', 'ON ADT.', 'NEG.', 'NETO', 'PRIC', 'OUT'. Below this is a table with columns for 'QUAN.', 'DESCRIPTION', 'PRICE', and 'AMOUNT'. The table has 14 rows numbered 1 to 14. At the bottom right of the table, there are fields for 'TAX' and 'TOTAL'.

Figure 4.11 A cash sale docket. Books can be bought from stationery suppliers, and the name of the business can be written in.

Cash sale dockets may be used by larger businesses, and cash register dockets also act as source documents to record incoming cash. The information from the receipt, cash sales docket or from the cash register tape is then recorded into the cash sales book and cash book.

Activity 5

1 Look at the receipt below and answer the questions that follow.

Honiara Hardware PO Box 145 Honiara	Receipt No. 333 21 May 2012
Received by cash by cheque from Alice	
the sum of.....nineteen thousand andeight hundreddollarscents	
being.....chainsaw per \$ <u>19800.00</u>	
With thanks, signed: <i>Francis Gale</i>	

- Who is paying the money?
 - Who is receiving the money?
 - Why is the money being paid?
 - What is the receipt number?
- 2 In your exercise book, draw the outline of three blank receipts. (Use Figure 4.7 as a guide.) Then enter the following information:
- The date is 6 May and the year is this year. The name of the business receiving the money is Solomon Tyres Ltd. The person who works for this business is Ambrose Dai. The person who is paying the money is Joanna Wale. She is paying \$8400.00 for four Dunlop 61 tyres. She is using notes and coins to pay for the tyres. The number on the receipt is 645.
 - The date is 23 June and the year is this year. The name of the business receiving the money is Hardware Supplies Ltd. The person who works for this business is Alice Gale. The person paying the money is Fred Huni. Fred is paying for timber and nails that cost \$3680.50. Fred is using notes and coins to pay. The number on the receipt is B221.
 - Visit a nearby shop or school canteen and ask for a copy of a blank receipt. Answer the following questions and complete the receipt.
 - Who is paying the money?
 - Who is receiving the money?
 - Why is the money being paid?
 - What is the receipt number?

Paying cash

There are two ways of paying for goods and services. Most small payments are made by cash. Cash includes notes and coins, as well as **cheques**. Only notes and coins are **legal tender**, which means that people must accept it in payment according to the law. Cheques are not legal tender. A seller of goods has the right to refuse to accept a cheque.

A cheque is a written command from the cheque account holder telling their bank to make a payment to the person whose name appears on the cheque. The person writing the cheque must have money in the bank. Only people who have special bank accounts can use cheques to make payments.



Figure 4.12 Cheques are useful when large sums of money need to be provided.

Activity 6

Income generating projects or running a canteen

Your teacher will decide which of the following options you will undertake.

Option 1

In groups, choose a project that will generate an income, such as setting up a small canteen to sell popcorn at the school break time or over the weekend to earn money. You will need to contribute some money to run the small project to buy the popcorn kernels and other supplies. Your teacher will assist you in determining what supplies you will need and how much money you will each need to pay.

Each group will need to create a cash book by copying the table below and recording their daily expenses, revenue and profit. At the end of the term, each group will find out their profit and share the money among the group according to their shares.

Option 2

In groups, create a role play about running a small canteen or a project. Write a plan about how your group will organise and run the canteen. You will need to include the type of product that you will sell, what your expenses will be, how much revenue and profit you plan to make and who your customers will be. You will need to show a record of your finances over ten weeks by copying the cash book table below, and recording the amount of revenue, expenses and profit that you forecast for your business.

Group A's Cash Book for our Popcorn canteen

Date	Revenue	\$	C	Date	Expenses	\$	C	\$	C
2012 January 2	50 bags sold @ \$20.00 each	1000	00	2012 January 1	10 Packets of Pop corn kernel bought	500	00	500	00
January 3	50 bags sold @ \$20.00 each	400	00	January 1	Cooking Oil	40	00	40	00
January 4	10 bags sold @ \$20.00 each	200	00	January 1	Plastic bag	50	00	50	00
		1600	00					590	00
Profit = Revenue – Expenses = \$1600.00 – \$590.00 = \$1010.00 Profit for the month of January = \$1010.00									

Chapter summary

Chapter

4

Business documents are pieces of paper that contain detailed information of financial events, such as a receipt or invoice.

Revenue is the money coming into the business from selling goods and services.

An expense is the money paid out by the business to produce goods and services.

When revenue is greater than expenses, this is called a profit:

$\text{profit} = \text{revenue} - \text{expenses}$.

When expenses are greater than the revenue, this is called a loss.

A transaction takes place at any time that something is bought and sold. The two types of transactions are cash and credit.

Bookkeeping is used by small businesses to record business transactions. They use a cash book to record cash transactions.

The two reasons for keeping records or accounts are for decision making and for accountability.

Accounting is mainly used by larger businesses.

Two ways of buying goods and services are by cash and cheque.

Legal tender is what people must accept in payment according to the law.

A cheque is a written command from a cheque account holder telling their bank to make payment to the person presenting the cheque.

Glossary

accountability being able to explain what has happened to the money that a person was in control of

balance how much money is left (This could be notes and coins, or it could be money in a bank account.)

cash register docket (tape) a type of receipt; the small piece of paper that is printed by the cash register in the shop

cash transaction a transaction that results in money changing hands straight away

cheque a written command from the cheque account holder telling their bank to make payment to the person whose name appears on the cheque

credit transaction a transaction that may involve the exchange of goods but payment is not made until some time in the future

document a piece of paper on which information about a transaction is written

expense money paid out by a business in order to carry on business activities

legal tender something that people must accept in payment according to the law

loss when a business has more expenses than revenue, so it has not made any profit

profit the extra money that has been made by a business. It is found by taking expenses away from revenue.

receipt a document used to record money received by a business

revenue money coming into a business from selling goods or providing services

transaction takes place any time something is bought and sold

Transactions and Documents

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define the terms credit, transaction, creditor, debtor and bad debt
- explain the concept of credit and how bad debts can lead to losses
- list the consequences of not managing credit documents
- draw and complete a simple credit document
- record cash and credit transactions.



Figure 5.1 Should a storekeeper always give “credit”?

What do you know already?

What is credit?

Can a small business provide credit to everyone?

Why or why not?

Why would a larger business sell goods now even though they will not receive the cash for another month?

How is the selling price worked out?

1 Introduction

All businesses need to make a profit. All businesses should make records of their transactions. Most small businesses operate on a cash basis. This means they have mainly cash transactions. However, even smaller businesses will also provide **credit**, but they need to be careful. Credit refers to goods being bought and given to the buyer, and the money is not paid until later. Larger businesses will often sell “on credit”, and this is normal in business. This chapter will look at credit transactions. It will also look at the main documents used to record credit transactions. It will then look at how the selling price can be worked out based on the information contained in the documents.

2 What is credit?

Some small businesses in Solomon Islands allow some people to take goods without paying for them. Records are kept as to when money will be given for the goods. Sometimes people do not repay the money owed and this can affect small businesses. These people are usually relatives or *wantoks*. This way of doing business is usual in the island countries of the Pacific.

In Chapter 9, the idea that people need not give up traditional values in countries like Solomon Islands is discussed. As business develops in this country, it will be conducted differently from the way business is conducted in countries like New Zealand and Australia. How business practices and cultural values can go hand in hand is examined in Chapter 9.

Credit transactions

Most medium and large businesses buy and sell some goods and services on credit. This means that goods are taken but not paid for at that time. The payment is made later. This is the same for goods and services. The people who are allowed to buy goods on credit are not *wantoks*. They are not friends of the seller. They must prove to the seller that they can pay the money. They can do this by showing the seller that they have a regular income, or that they own valuable things that could be sold to get money if necessary. A record is made of the amount of money involved. A date is arranged by which time the money must be paid back.

The people involved in credit transactions

When a person or business buys goods from another person or business on credit, it means that they owe money to this person or business. A person or business to whom money is owed is called a **creditor**. A person or business who owes the money is called a **debtor**. The amount of money that is owed is called a **debt**.



Figure 5.2 Fred is a debtor. Mary is the creditor.

Any business that sells goods on credit needs to be careful. If debtors do not pay the money they owe, the business loses money. A **bad debt** is a debt that is not paid back. A bad debt is an expense for the business. If there are too many bad debts, the expense will be very big. This can result in the total expenses being greater than the total revenue. If this happens, the business makes a loss.

Activity 1

- 1 Mafe has allowed Ken to take \$120 worth of goods on credit. Who is the creditor? Who is the debtor?
- 2 Mary borrows \$60 from her friend Martha. Who is the creditor and who is the debtor?
- 3 What is a bad debt? Give an example of a bad debt using the information in Question 1.
- 4 Describe how credit is used where you live. Are there any problems with how it is used? Explain.
- 5 What information will a business want to know about a customer before selling goods to them on credit?

3 The documents used in credit transactions

Small businesses

A very small business may not use any documents to record the small cash transactions that happen every day. However, the total cash received from sales should be recorded in the cash book. This was discussed in Chapter 4. If goods are sold on credit, then a record should be kept in a book. This may be a simple exercise book. The name of the person should be written at the top of the page. Then a record of each day that the person takes goods on credit should be made, with the amount of money owing, and a brief description of the goods. When the person pays back some money, this should also be recorded.

It may be necessary to agree on a limit to how much credit will be given. For example, a customer may be given a limit of \$50. This customer is allowed to take goods until the value of the goods they take reaches \$50. And when this limit is reached, it may be necessary to say “no”, until some or all of the money owing has been paid back. If the business does not get money to keep on buying goods, it will close down because it has nothing to sell.



Figure 5.3 An exercise book can be used to record the value of goods taken which have not been paid for.

Activity 2

- 1 Imagine you are the owner of a small store. Would you give credit to anyone who came into the store and asked for it? To which people would you allow credit, and when would you not allow credit?
- 2 When a customer reaches the limit of their credit, what would you do?
- 3 Why must a business person limit credit if they are to stay in business?

Medium to large businesses

Ordering goods—the businesses involved

A business that sells goods directly to consumers is called a **retailer**. A small village store is a retailer. A big store in Honiara that sells goods to people is also a retailer. Retailers buy their goods in cartons and sell single goods. Retailers buy these cartons from larger businesses called **wholesalers**. A wholesaler buys in large quantities, either from the manufacturer or from an importer of goods from other countries. When a business buys in large quantities, this is called buying in **bulk**. Wholesalers buy many cartons (in bulk) and sell smaller numbers of cartons to retailers. The price a retailer pays the wholesaler is less than the price a consumer pays the retailer. This is how a retailer makes profit.

For very small businesses, goods are usually ordered from the supplier directly, over the counter. Often, these goods will be taken by the buyer on transport they have organised, immediately. This is often the case when small retailers buy goods from a wholesaler. Businesses that are located some distance away from the supplier need to write out an order, listing all the goods they want. This can be done on any paper, but standard order forms can be bought cheaply from stationery suppliers. The buyer informs the seller that they want certain goods. The buyer fills out an order form, which clearly states their name and address, a clear description of the goods they want, the quantity, and how they want them delivered and when.

ORDER FORM**AIMAUA'S STORE**
HARUMOU P/A MALAITA**ORDER NUMBER 154**

9 August 2012

To
Poma Wholesale
.....
P.O. Box 120
.....
Honiara
.....

Quantity	Particulars	\$	¢
1 ctn	Corned beef (small)	119	00
1 ctn	Tomato sauce (large)	180	00
1 ctn	Navy biscuits	78	00
4 bags	Plain flour (5 kg)	48	00
1 bale	White sugar (1 kg)	98	00
5 bags	Calrose rice (10 kg)	85	00

Date delivery required..... As soon as possible.....

Delivery method.....



 Signature

Figure 5.4 An example of an order form

Invoices

Only larger businesses are in a position to buy goods on credit. The seller of the goods prepares a document called an **invoice** and sends it to the buyer. An invoice lists all the goods that have been sold. It may show the

number of the buyer's order form, so that the buyer can match up the goods that were ordered with the goods that they get. It shows the price of the goods and the total amount of money owing.

Y. SATO & CO. LTD			INVOICE	
P.O. Box 163, Honiara, Solomon Islands			No. 20500	
A. Toupe Kolamba village, Bellona			Date: 29 November 2012	
Quantity	Description	Unit price	Total Amount	
1 ctn	Corned beef (small)	155.50	155	50
1 ctn	Solomon blue (taiyo) (medium)	278.00	278	00
1 ctn	Milk (g)	234.00	234	00
4 bags	Rice (10 kg)	85.00	340	00
1 bale	Sugar (500 grams)	68.00	68	00
5 bags	Flour (25 kg)	168.00	840	00
			1915	50

Figure 5.5 An example of an invoice

Activity 3

Study the order form shown in Figure 5.4 and then answer the following questions in your exercise book.

- 1 On what date was the order prepared?
- 2 What is the name of the buyer?
- 3 What is the name of the supplier?
- 4 What is the number of the order form?
- 5 What goods are being ordered?
- 6 How does the buyer want the goods sent?
- 7 Who made out the order?
- 8 Explain why at least two copies of the order should be made.
- 9 Draw up two blank order forms in your exercise book. Then prepare orders for the following situations:
 - a Tome wishes to order the following goods from Sullivan's Pty Ltd, PO Box 1255, Honiara: 5 cartons of 15 tins of taiyo, 8 cartons of 750 g powdered milk, 2 20 kg bags of rice, 15 cartons of navy biscuits, 6 cases of soft drink. Tome wants Sullivan's to deliver the goods to his trade store in Auki. Use today's date and Order number 22.
 - b The following goods are required by J. Alo's Fast Food Ltd, PO Box 789, Honiara: 2 Remington adding machines, electric model 3M5; and 3 manual adding machines, model 2M4. These goods are sold by e-world Technology Ltd, PO Box 1066, Honiara. J. Alo wants the goods bought from KHY Co. Pty Ltd. Use today's date and order number 5089.

4 Buying and selling goods on credit

The way that goods are bought and sold on credit is shown below in Figure 5.6a and Figure 5.6b.

STATEMENT						
M/S.....						
.....						
DATE.....						
ACCOUNT WITH Y. SATO & CO. LTD						
Phone 620 and 820					No. 1950	
Cable & Telegraphic Address: PO Box 163, Honiara		Solomon Islands				
RovianaRose Honiara.						
Date	Particulars	Debit		Credit	Balance	
2012	Account rendered					
11.11.12	3579	210	50		210	50
20.11.12	4320	100	54		311	04
25.11.12	5421	569	00		880	04
Trade Terms – 2.5% discount for cash within 30 days of date of statement.					The last amount in this column is the amount owing. E&OE	

Figure 5.6a The documents involved in buying/selling goods on credit

QQQ Wholesale			INVOICE	
P.O. Box 201, Honiara, Solomon Islands				
A. Tom Hautaha village, South Malaita			No. 32	
			Date: 21 November 2012	
Quantity	Description	Unit price	Amount	
1 ctn	Solomon blue (taiyo) (medium)	265.00	265	00
1 ctn	Waioka taiyo (medium)	258.00	258	00
1 ctn	Chocolate powdered drink (200 g)	158.00	158	00
4 bags	Rice (20 kg)	150.00	600	00
1 bale	Salt (small)	79.80	79	80
1 ctn	Navy biscuits (large)	109.00	109	00
			1469	80

Figure 5.6b The documents involved in buying/selling goods on credit.

To: Sweetie Wholesale P.O. Box 45 Honiara	Ma'asina store Marau P/A, Guadalcanal	ORDER NUMBER 200 Date: 20 September 2012																								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Quantity</th> <th style="text-align: left;">Particulars</th> <th style="text-align: right;">\$</th> <th style="text-align: right;">c</th> </tr> </thead> <tbody> <tr> <td>1 ctn</td> <td>Cola</td> <td style="text-align: right;">300</td> <td style="text-align: right;">00</td> </tr> <tr> <td>1 bale</td> <td>Sugar (500 g)</td> <td style="text-align: right;">299</td> <td style="text-align: right;">00</td> </tr> <tr> <td>1 ctn</td> <td>Noodles</td> <td style="text-align: right;">47</td> <td style="text-align: right;">00</td> </tr> <tr> <td>1 bale</td> <td>Rice (20 packets x 1 kg)</td> <td style="text-align: right;">180</td> <td style="text-align: right;">00</td> </tr> <tr> <td>1 bag</td> <td>Rice (20 kg)</td> <td style="text-align: right;">175</td> <td style="text-align: right;">80</td> </tr> </tbody> </table>	Quantity	Particulars	\$	c	1 ctn	Cola	300	00	1 bale	Sugar (500 g)	299	00	1 ctn	Noodles	47	00	1 bale	Rice (20 packets x 1 kg)	180	00	1 bag	Rice (20 kg)	175	80	Date delivery required..... As soon as possible Delivery method.....	
Quantity	Particulars	\$	c																							
1 ctn	Cola	300	00																							
1 bale	Sugar (500 g)	299	00																							
1 ctn	Noodles	47	00																							
1 bale	Rice (20 packets x 1 kg)	180	00																							
1 bag	Rice (20 kg)	175	80																							
		 Signature																								

Figure 5.6c An example of an order form

Business documents used in communication

Common documents

The main activity of business is buying and selling. In many cases, the buyers may be some distance from the sellers. Communication needs to take place between the buyer and the seller. Over time, there has developed a set way of doing this efficiently and effectively. It involves the use of pre-printed forms or

documents. We have already looked at the order form and invoice but there are more documents involved. These documents reflect the various stages of the communication that takes place between the buyer and seller.

Stage 1 The buyer informs the seller that they want certain goods. The buyer fills out an **order form**, which should clearly state the name and address of the buyer, the goods they want, and the quantity they want, as well as how they want them delivered, and when.

STATEMENT						
M/S.....						
.....						
DATE.....						
ACCOUNT WITH Y. SATO & CO. LTD						
Phone 620 and 820						
Cable & Telegraphic Address: PO Box 163, Honiara			No. 1950			
RovianaRose Honiara.			Solomon Islands			
Date	Particulars	Debit		Credit	Balance	
2012	Account rendered					
11.11.12	3579	210	50		210	50
20.11.12	4320	100	54		310	04
25.11.12	5421	569	00		880	04
Trade Terms – 2.5% discount for cash within 30 days of date of statement.					The last amount in this column is the amount owing. E&OE	

Figure 5.7 An example of a statement of account

Stage 2 When the goods are delivered, the seller sends with the goods a document called a **delivery docket**, which should list the goods that have been delivered. (The buyer should check to see that the goods delivered match the goods listed on the delivery docket, and should also match them against the goods listed on the order form.)

Stage 3 An invoice is a document that also lists the goods, but sets out the prices and the total amount of money owing as well. It also states the terms, such as any **discount** the buyer may get if the money is paid within a certain period of time. (A discount is a small reduction in the cost of the goods.) The invoice may be given to the buyer at the same time the goods are delivered, or sent later by post.

Stage 4 The buyer may order several lots of goods from the same supplier. This means that stages 1–3 may be repeated. Whether they are repeated or not, at the end of the month, it is usual for the seller to send a **statement of account** to the buyer, which should set out all the details of invoices previously sent, showing any payments that have been received, and what is now owing.

Stage 5 After receiving the statement, usually sent in the mail, the buyer is expected to pay for the goods (usually no later than thirty days from the date shown on the statement). Often, the buyer will send a cheque to pay the account.

Activity 4

- Match the document listed in Column A with the transaction described in Column B. Write the answers in your exercise book.

Column A	Column B
1 invoice	a to record money coming into a business
2 credit note	b records a payment
3 receipt	c records a credit sale
4 cheque butt	d signed when goods are delivered
5 cash register tape	e records the return of goods
6 statement of account	f summarises all transactions
7 delivery docket	g used as a receipt for inexpensive items

- Documents serve two main purposes— as a means of communication, and as records of transactions. In two separate paragraphs in your exercise book, explain each of these roles.

5 Using the information from documents

As mentioned earlier, documents allow communication to take place between a buyer and a seller. They are also used for keeping records. Invoices also provide the information needed to calculate the selling price of goods.

Calculating the selling price of goods



Figure 5.8 How do you know how much to sell your goods for?

There are two steps to calculating the selling price of goods. Firstly, the **cost-into-store** (CIS) must be calculated. This is the cost of the good itself plus its share of the transportation cost to get the goods to the store. Secondly, there is a **mark-up** on the cost of the good. This is the extra money that a storekeeper charges the customers. This mark-up needs to be large enough to cover all the other expenses of the business. The mark-up is usually a percentage of the CIS.

Percentages

Before discussing how selling prices can be found by adding on a percentage mark-up, it may be useful to remember what a percentage is. Per cent means something out of one hundred. “Cent” comes from a Latin word meaning one hundred. (Latin was the language of the ancient Romans.) The symbol for percentage is %.

Five per cent (5%) means 5 out of 100. The same idea can be written in three ways: as a percentage, as a fraction, or as a decimal.

Percentage	Fraction	Decimal
5%	$\frac{5}{100}$	0.05

It is important to be able to change percentages into fractions and decimals. This speeds up calculations. It also helps you to do some simple checking of the accuracy of your calculations. More examples of changing percentages into fractions and decimals are given below.

Percentage	Fraction	Decimal
10%	$\frac{1}{10}$	0.1
20%	$\frac{20}{100}$ or $\frac{1}{5}$	0.2
25%	$\frac{25}{100}$ or $\frac{1}{4}$	0.25
50%	$\frac{50}{100}$ or $\frac{1}{2}$	0.5
75%	$\frac{75}{100}$ or $\frac{3}{4}$	0.75
100%	1	1

Step 1 Calculating cost-into-store

When a retailer buys goods, they have to buy cartons from a wholesaler. The wholesale price is paid for these goods. Apart from this cost, the retailer usually has to pay for the cost of transporting those goods to their store. This cost is sometimes referred to as **freight**.



Figure 5.9 The cost of transporting goods is called freight.

When calculating the selling price, retailers base it on the total cost of getting the goods into their store. This cost is known as cost-into-store (CIS), and is made up of the wholesale cost plus the cost of freight.

Example: Imagine a retailer buys the following goods from a wholesaler (this information is found on the invoice sent by the seller to the buyer):

INVOICE	
3 cartons of Solomon blue taiyo @ \$200 each (48 x 180 g)	\$600
2 bags of rice (10 kg) @ \$85 each	\$170
3 cartons of navy biscuits (40 pkt x 50 g) @ \$54 each	<u>\$162</u>
Total wholesale cost	\$932

However, the cost of transporting these goods to the store is \$40. How much of this \$40 should be added onto each tin of Solomon blue taiyo or packet of navy biscuits? This can be done by averaging the cost of freight over all the goods, as shown below:

$$\begin{aligned}
 \text{Average cost of freight on goods} &= \frac{\text{Freight} \times 100}{\text{Total wholesale cost}} \\
 &= \frac{\$40 \times 100}{\$932} \\
 &= 4.3\% \\
 &= 4\% \text{ (to the nearest per cent)}
 \end{aligned}$$

If one carton of Solomon blue taiyo costs \$200, the CIS of this carton would be:

$$\begin{aligned}
 &\$200 + (4\% \text{ of } \$200) \\
 &= \$200 + \$8 \\
 &= \$208.00
 \end{aligned}$$

If there are 48 tins in a carton, then the CIS of each tin would be:

$$\begin{aligned}
 &\$208 \text{ divided by } 48 \\
 &= \$4.30 \text{ (to nearest cent)}
 \end{aligned}$$

Based on this knowledge of the CIS of each of the goods being offered for sale, the retailer can now work out the selling price of each good.

Activity 5

- Work out the freight as a percentage of total wholesale cost, in the following situations.
 - Selo bought 3 cartons of tinned corned beef (small) for \$340 per carton, 2 cartons of navy biscuits for \$54 per carton, and paid \$35 to a taxi owner to take the goods to his store.
 - Meri bought 5 cartons of tinned mackerel for \$400 per carton, 4 cartons of tinned meat at \$350 per carton, and 2 cartons of biscuits at \$62 per carton. She paid \$50 freight to get the goods to her store.
 - Gebi bought 10 cartons of tinned meat at \$360 per carton, and 10 cartons of biscuits for \$60 per carton. He paid \$60 to a truck owner to take his goods to his trade store.
- Calculate the CIS on each of the following goods.
 - The freight percentage of total wholesale cost is 10%. A carton of tinned meat costs \$320, wholesale. There are 48 tins in a carton. How much is the CIS of each tin?
 - The freight percentage of total wholesale cost is 8%. If a carton of navy biscuits containing 40 packets costs \$78 wholesale, what is the CIS of each packet?
 - The freight percentage of total wholesale cost has been calculated to be 5%. If the wholesale cost of a carton of powdered milk is \$500, and there are 24 tins in a carton, what is the CIS of each tin?

Step 2 Adding on the mark-up

Mark-up refers to the amount of money that is added onto the cost-into-store of the good in order to find the selling price of the good. The size of the mark-up will be different for different goods in different stores. The mark-up has to be big enough to help cover all the other costs of running the business as well as leaving enough profit for the business person.

The mark-up is usually expressed as a percentage. For example, the mark-up on a range of products may be 30%.

If a particular good has a cost-into-store of \$100, then 30% is added on as the mark-up. This means that the selling price is \$130 (\$100.00 + 30% of \$100.00). The government recommends the mark-up percentage on certain base goods like flour and rice, for example, 25% on non-food and 50–100% on special food.

Activity 6

Calculate the selling price in each of the following situations. You have been given the cost-into-store and the percentage mark-up to be used.

Example:

\$10, 10%

$$\begin{aligned}\text{Selling price} &= \text{CIS (cost-into-store) +} \\ &\quad \text{percentage mark-up of CIS} \\ &= \$10 + 10\% \text{ of } \$10 \\ &= \$10 + \frac{(10 \times \$10)}{100} \\ &= \$10 + \$1 \\ &= \$11\end{aligned}$$

- 1 \$8, 20%
- 2 \$10, 25%
- 3 \$25, 30%
- 4 \$12, 15%
- 5 \$10, 50%
- 6 \$80, 60%
- 7 \$5, 10%
- 8 \$0.60, 10%

Activity 7

Research questions

Working in small groups, visit the school canteen or a shop near your school and ask for an order form, invoice and a financial statement or other documents that the business uses.

- 1 Copy the three documents in your exercise books or photocopy them and compare them with the documents in this chapter.
- 2 Are there any differences and similarities between the three documents? Discuss and explain how they are different and similar.
- 3 Ask the shop keeper who writes the order form, invoice and the statement and how often they receive and issue them. Record their answers.

Present your group's findings to the class.

Chapter summary

Chapter

5

A credit transaction is an event where individuals or businesses are given goods or services and payments are made later.

The person or business who owes money is called a debtor.

A person or business to whom money is owed is called a creditor.

A bad debt is money owed that is not repaid.

The retailer is a business that sells goods directly to consumers.

A wholesaler is a business that buys goods in large quantities, and sells them to the retailer.

An invoice is a document that is prepared by the seller of goods and given to the buyer who has bought goods on credit.

The various stages of communication that take place between the buyer and the seller are as follows.

- Fill out an order form.
- Send a delivery docket.
- Give invoice to the buyer.
- Send a statement of account.

The two steps of calculating selling price are:

- cost-into-store (CIS)
- mark-up on the cost of goods.

Glossary

bad debt a debt that is not paid back

bulk large quantities of goods

cost-into-store (CIS) the total cost of getting the goods into a store

credit when goods are bought and given to the buyer and the money is not paid until later

creditor a person or business to whom money is owed

credit note a document prepared by a seller of goods that have been bought on credit, when some or all of these goods have been returned by the buyer

debt an amount of money owed

debtor a person or business who owes money to another person or business

delivery docket a document prepared by a seller of goods that is sent with the goods to the buyer

discount a small reduction in the normal price of goods

freight the cost of transporting goods

invoice a document prepared by a seller of goods and sent to the buyer

mark-up the extra money that is added to the cost price of goods to work out the selling price

order form a document that is sent from a buyer of goods to the seller. It has a clear description of the goods they want, the quantity, and how they are to be delivered.

retailer a business that sells goods directly to consumers

statement of account a document prepared by a seller of goods on credit. This document summarises all the transactions between the buyer and the seller. It shows the amount of money owed by the buyer to the seller.

wholesalers businesses that buy in large quantities, either from a manufacturer or from an importer of goods from other countries, and sell to retailers

Starting Your Own Business



Figure 6.0 A store is an example of a business.

In the next four chapters, we will be looking at what it is like to start your own business. There are not enough paid jobs for all the people who finish school. Many young people will need to look for other ways to earn some money. A good way to earn money is to start a small business. It is not easy, and needs some hard work. Starting a small business is good for the person or people starting the business. It is also good for the country as a whole.

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define the terms entrepreneurs, ethical and other related terms
- describe the benefits of or reasons for running small businesses in the community
- identify the characteristics a business person needs to acquire in order to run a business successfully
- list the advantages and disadvantages of running a business
- list the good and ethical business practices
- present a case study for sustaining your own livelihood by running your own business.

A case study

Read the following story and then answer the questions that follow.

Something from nothing

Samuel Rahii from Ugi Island in the Makira Ulawa Province is a successful businessman today. He sells clam shells that have been thrown away by people in Solomon Islands to buyers in the United States of America and in other developed countries.

These empty clam shells are used for wash basins in bathrooms, and also to hold fruit in kitchens. People in other countries see these shells as attractive and something different. They do not have such big clams in their own countries.

Solomon Islanders who live in coastal areas have been harvesting clams for food for many years. They usually throw away the empty shells, although some have been used to hold food for pigs.



Figure 6.1 Samuel Rahii has made a business out of exporting empty clam shells.

Samuel has an advantage over other people in setting up such a business. He had done some study in environmental economics at James Cook University in Townsville, Queensland. He had also studied information technology, which gave him knowledge about the **internet** and how it can be used to contact people all around the world. (The internet enables people with computers to communicate with other people who use computers anywhere in the world. You will learn about this in your English course.)

Sam also has the personal qualities to succeed. He was willing to look for opportunities. He was willing to take risks and do something that had not been done before. He needed to set up the business and follow all the laws that control the export and import of products such as clam shells.

He also has a strong business sense which is shown in what he has to say about finding markets.

“My philosophy is that the market is more important than the product. If you want to get your first million dollars quickly, you have to create the market and maintain the market. Once you create the market, you can sell any product. The second part of my philosophy is to go below zero—to create a market for something that has no value,” says Rahii.

By starting this business, Rahii is able to buy empty clam shells from people who would otherwise not get any money for them. He is also looking at ways of setting up sustainable farming for a range of other sea products such as trochus and bêche-de-mer. As an entrepreneur he is benefiting from his business. But other Solomon Islanders are also benefiting from his business.

Information taken from Solomons, Issue 48, Solomon Airlines' Complimentary Inflight Magazine.

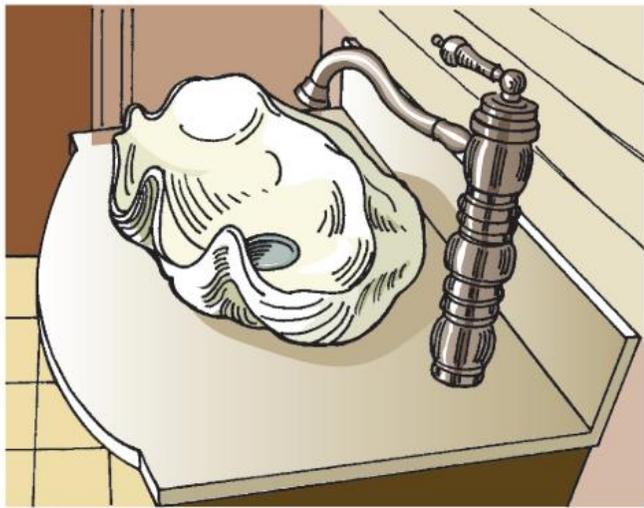


Figure 6.2 A clam shell can be made into a wash basin.

Activity 1

The following questions are based on the case study “Something from nothing”. Write your answers in your exercise book.

- 1 What product is Samuel Rahii selling?
- 2 To whom does he sell the empty clam shells?
- 3 What are these shells used for in other countries?
- 4 How does Samuel contact buyers in other countries?
- 5 Make a list of the reasons why Samuel has been successful in establishing such a business that are mentioned in the article.
- 6 How does Samuel’s success help other people in Solomon Islands?
- 7 Try to think of a business you could start in your home area to sell things overseas or in Solomon Islands that have not been sold before. Write down your ideas.

1 Introduction

As explained in Chapter 2 on page 17, the factor enterprise is needed before production can take place. Enterprise is just one of the four factors of production. The others are labour, capital, and natural resources. Enterprise is the most important factor because it gets production started in the first place. It is responsible for organising the other factors of production. At the heart of enterprise is the entrepreneur, the person responsible for organising the other factors. The entrepreneur usually does this by starting a business.

Entrepreneurs often start small and can increase their business into a large one over time. This chapter will look at why people go into business and what personal characteristics are needed to be successful. It will also look at what it takes to be a successful salesperson while still applying good and ethical business practices.

Ethical means doing things in a way that is honest and morally correct.

Activity 2

In your own words, write a paragraph in which you describe what an entrepreneur does. In your answer, mention the other factors of production: natural resources, labour, and capital.

2 Reasons for being self-employed

If you start up your own business, you are self-employed. You will be your own boss. But you are also an entrepreneur. There can be many reasons why a person goes into business. The main reasons are as follows.

► **To make more money** The main reason people all around the world start a business is to make money. As described in Chapter 4, page 49, the income a business receives is called profit. This is the money left over after taking total expenses away from revenue. (Refer back to pages 49–50.) The **profit motive** is the idea of making money as the reason for going into business. It is a very

powerful reason why many people are prepared to take the risk of starting up a business. As entrepreneurs make profit, they can meet their needs and wants and those of their families. By making profit, they are increasing their personal wealth. However, as we will see in Chapter 9, there are also entrepreneurs in Solomon Islands who are interested in increasing community wealth, not just personal wealth. Entrepreneurs also make goods or provide services that other people need or want, so they are also helping the wider community.



Figure 6.3 A person starts up a business to make money for themselves or for their community.

► **To be your own boss** Many people like the idea of being their own boss. By starting up their own business, they get to make all the decisions. Some people find this satisfying, even exciting. To be your own boss means that you are in control. You are independent. You can use your own skills. You can develop a business opportunity in an area in which you are interested. You may have natural abilities you can make use of. You may have learnt skills from school, a vocational centre, a university or even from simple observation of a relative or friend. Apart from making money, it can be very satisfying to watch a business grow. A successful business person often has a sense of pride and a feeling of achievement. And this has come about by being their own boss.



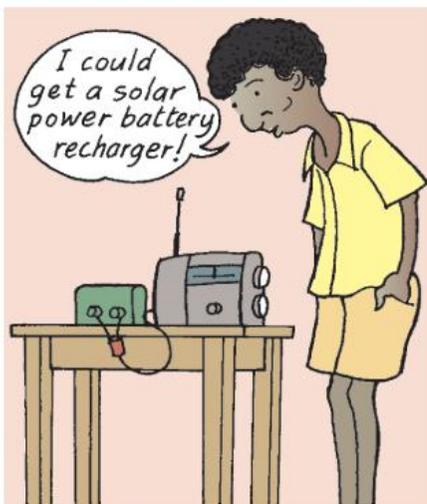
Figure 6.4 As a business person, you get to make all the decisions.

► **To use a business opportunity** A successful business person often sees an opportunity that can be taken advantage of. They see that there is a need or a want for a good that is not presently being provided for. The situation in which needs and wants are not presently being met is called a **business opportunity**. Remember Fred, Seb, and Rose from Chapter 1? Fred saw a business opportunity for battery recharging. Seb saw a business opportunity for transporting people across a river, and Rose saw a business opportunity for making clothing. They all saw a business opportunity. Any person who can spot an opportunity where people's needs and wants are not presently being met, has the chance to start a new business.

► **To avoid unemployment** The reality of life in many countries, not just in Solomon Islands, is that there are not enough paid jobs for the number of people who want them. A business or government department that pays people to work for them is called an **employer**. People who work for other people are called **employees**. If a person does not have a job but is looking for one, they can be described as **unemployed**. There are many unemployed people. If a person is unemployed, they do not have many choices. They can sit around and rely on *wantoks*, or grow their own food and satisfy their other needs in their village, or they can start a business. For some people, however, going back to the village may not be an option. They may not have a village to go back to or there may not be enough land for them to work on. The only other alternative is to try to start a business. This is not an easy thing to do, but it is much better than sitting around and possibly getting into trouble. In many other countries, including industrialised countries, where most people live in cities, there are thousands of people who are unemployed.

It is sometimes said that in Solomon Islands unemployment does not exist, because people without paid work have a village with land that they can go back to, where they can look after themselves.

Whatever the reason for going into business, there are opportunities out there for people with the right attitude.



Fred sees that his friend Matias has a battery that is flat.



Rose has started making clothes. She can make some to fit her sister Rachel.



Seb has built a raft to take people across the river.

Figure 6.5 What business opportunities did Fred, Seb, and Rose see?

Activity 3

- 1 What is meant by the term “profit motive”?
- 2 Are there small businesses in your area where the entrepreneur is more concerned with building community wealth rather than personal wealth? Discuss this with your classmates.
- 3 What are some advantages of being your own boss? What could be some disadvantages?
- 4 What is a business opportunity? Why does a business opportunity provide an entrepreneur with a chance to start a business?
- 5 Group discussion: In groups of 3–5 students, discuss any business opportunities that may exist in your area. Have one student write them down and report back to the class.
- 6 In the area near your school, which businesses or government departments are the biggest employers?
- 7 What choices do people who are unemployed have?
- 8 What are some of the problems of unemployment?
- 9 Do you think it is true that there is no real unemployment in Solomon Islands?
- 10 In what way is it true that many of the people in Honiara or other towns who do not have paid employment are “voluntarily unemployed”, that is, unemployed because they want to be?
- 11 How does the *wantok* system:
 - a encourage unemployment?
 - b help those who are genuinely unemployed?

3 What you need to be a successful entrepreneur

A person needs certain qualities to become an entrepreneur.

- ▶ **Courage and determination** This is needed in setting one’s own goals. It is one thing to spot a business opportunity. It is another thing to try to do something about it. It takes courage to go into even a small business venture, because there are always some risks. There is the risk of losing some or all of the money you used to start the business. There is the risk that some people may laugh at you if you fail. Someone who wants to start a business must be brave enough to take on these risks. And if the first attempt to start a business does fail, that person must be prepared to try and try again until they succeed.
- ▶ **Energy** Starting a business takes a lot of hard work. It means that the entrepreneur must have a lot of energy. This is not just in regard to physical strength but also mental strength. It is really about attitude. A person going into business must have the right attitude to be successful. And what is the right attitude? It is about being prepared to work hard, it is about being prepared to overcome difficulties, about not easily giving up, and being willing to keep on trying.
- ▶ **Skills** Apart from energy, a person must have the skills needed for the particular business they have in mind. Sometimes a person may not know they have certain skills until they have tried a particular activity. However, it is better to begin by looking at yourself closely and honestly. What are your strengths? (What are you good at?) What are your weaknesses? (What are you bad at?) Looking at yourself, your strengths and weaknesses, is called **self-assessment**. By doing a self-assessment, you are more likely to consider a business opportunity that is suitable and realistic for you. See Figure 6.6 for some examples of questions that you could ask yourself.

Self-assessment

Copy the statements below into your exercise book and fill in the “score” column using the following numbers:

- 1 This is a strength
- 2 This is a weak area
- 3 This is what I need to work on to develop skills
- 4 Do not know

I have the following characteristics:	Score	Comment
Am hard working	?	?
Can spot a business opportunity	?	?
Can talk with people	?	?
Am creative	?	?
Am able to plan	?	?
Can solve problems	?	?
Am able to see risks	?	?
Can deal with problems and pressure or stress	?	?
Can be a leader	?	?
Am willing to change	?	?
Can be responsible	?	?
Can see things through	?	?

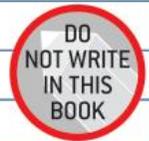


Figure 6.6 Some areas you could consider as part of a self-assessment

➤ **Selecting the right business opportunities** After a person has done a self-assessment, it becomes a matter of finding the right business opportunity. The business opportunity must match the person’s skills and allow them to use their strengths. However, a wise person will have long-term goals. To achieve these long-term goals, it may be necessary to do some smaller projects in the short term—to get enough money to start future business. There is a saying in English that “Rome wasn’t built in a day”. The Rome referred to is the ancient city of 2000 years ago, not the present-day capital of Italy. It took hundreds of years to become one of the most powerful cities of the ancient world. The meaning of the saying is to not expect big things to happen quickly. It takes time to achieve something big. And so it is with business. Most business people start small. Over time, they save money and use it to either expand their original business or start something different. For some people, their first business may just be the first step. As time goes by, they may see other business opportunities developing that they may be able to take advantage of.

➤ **Assessing financial position** For many businesses, it is necessary to spend some money before they can start making money. Take a small trade store for example. The owner must buy cartons of goods from a wholesaler before they can sell them to consumers. It is no use identifying a business opportunity that requires a lot of money to start up when you have very little money ready to use. Therefore it is necessary to assess your financial position. How much money do you have, and how much could you borrow from relatives and friends, or from banks? A person must be careful not to borrow too much as this can cause problems in the future when paying back the money is expected. If a person does not have enough money to get started, they may need to look for other ways to earn money in the short term. This may involve doing things they do not enjoy or would not be prepared to do for the rest of their lives. However, doing these other jobs may allow a person to save enough money to eventually start the business they want.



Figure 6.7 Some people do other jobs in order to get the money they need.

4 Applying good and ethical business practices

The word “ethics” was defined earlier in the chapter. It is the use of moral principles in dealing with fellow human beings, and with the environment. **Moral principles** are what a society thinks to be right or correct ways of doing things. Ethical business practices are “good” in the sense that they are the right things to do. But they are also good for business, as people who show they are moral and law-abiding citizens win the respect and confidence of the people around them. This often means that more customers will come to them, and keep coming back to them. Some ethical business practices involve such things as the following.

- ▶ **Honesty** It is important in business to do what you say you will do. If you say that you will have goods delivered by a certain date, then you need to make sure that you do. It is also important not to tell lies about a product. Telling lies is not ethical. It is also bad for business in the long run, as no one will trust you. A person who tells lies will get a bad reputation.
- ▶ **Debt payments** Debts are amounts owed to other people. It is important to pay debts on time. If you develop a good reputation for paying back debts on time, it will be easier to borrow money in the future. As it is not your money, it is only right that you pay back any money you owe. It is the ethical thing to do.
- ▶ **Fairness and loyalty** If you are in partnership with others, it is important to respect their rights and to be fair. This also applies to any staff you may employ. If you expect them to work longer hours during busy times, then it is only fair that you give them some time off during quiet times or pay them extra money. In this way staff will become loyal to you.
- ▶ **Complaint response** It is important to listen to any complaints that a customer may have. If you have sold them something that does not work, then it is only right that you replace the good. That is the ethical thing to do.

Activity 4

- 1 Do a self-assessment. Make a list of all the things you are good at. Also make a list of your weaknesses. This is not an easy task. This is not to show other people, but just for yourself.
- 2 Your financial position is to do with how much money you have or can get. At present, you probably do not have any money. Imagine in the future after you leave school: you want to start a small business activity but you do not have enough money. Where could you get the money from?

For business to develop in any society, it is important to have trust in the people around you. This applies to both business people and their customers. If customers do not do the right thing when it comes to paying back their debts, or by making false claims against a business, this destroys trust. If there is not a feeling of trust in a society, the development of business will be held back. If there is a strong commitment to acting ethically in society as a whole, then business has a chance to grow strongly.

Activity 5

- 1 What is meant by ethical business practice?
- 2 Give an example of an ethical business practice.
- 3 Give an example of an unethical business practice.
- 4 Why is being honest in business good for a business? Explain in a couple of sentences.
- 5 Think of any business you know. It may be a small trade store, a village coca farm, a large business in Honiara or any other province. Try to judge in what ways it is ethical and any ways in which it may not be ethical. Judge by using the headings in the last section.

Activity 6

Research questions

Your teacher will explain how to complete the following research topic. You will work in groups and each group will present their findings in another lesson.

If your school is in or near Honiara town, complete the research topic under Option 1, otherwise complete the research topic under Option 2.

Option 1—Urban schools

Research the unemployment statistics in Solomon Islands. As a class you will visit the Ministry of Commerce and Trade, and find out the following information:

- What are the latest figures on people who are unemployed in Solomon Islands?
- What is the Ministry or organisation doing to try and solve the problem of unemployment?
- How do they calculate the figure and did they find the information needed?

Write a report on how you think we can solve the problem of unemployment in Solomon Islands. Present your findings to the class.

Option 2—Rural Area Schools

Research a business or market near your school and interview the operator to find out the following information:

- How was the business started?
- Who owns the business?
- How many people work in the business?
- What type of product do they sell?
- How do they earn their profit?
- Why did they select that type of product?
- What are their weaknesses and strengths?
- How can they improve it?

Write a case study about the business. Your teacher will help you. Use the Samuel Rahii case study above as an example.

Chapter summary

Chapter

6

The factor enterprise is responsible for combining the other three factors of production (natural resources, labour, and capital).

An entrepreneur is a person responsible for organising the other three factors of production.

Some reasons for being self employed are:

- to make more money
- to be your own boss
- to fill in gaps in the market
- to be employed.

A successful entrepreneur needs:

- courage and determination
- energy and skill
- the ability to identify and select the right business opportunities
- an honest assessment of themselves their financial position.

Good and ethical business practices include:

- honesty
- debt payment on time
- fairness and loyalty
- complaint response.

Glossary

business opportunity the situation in which some needs and wants that people have are not being satisfied. This provides an opportunity to start a business to satisfy these needs or wants

employees people who work for other people

employer a business or government department that pays people to work for them

ethical doing things in a way that is honest and morally correct

internet a computer network that allows people to communicate with other people

who use computers anywhere in the world, and allows people to search for information on a very wide range of subjects from around the world

moral principles what a society thinks to be the right or correct ways of doing things

profit motive the making of money as the reason a person goes into business

self-assessment looking at yourself, your strengths and weaknesses

unemployed looking for or wanting a paid job but not having one

Specific learning outcomes

By the end of this chapter, learners should be able to:

- ▶ define business structures, sole trader, partnership, companies, joint venture and cooperatives and related terms
- ▶ list the advantages and disadvantages of the different business structures
- ▶ identify examples of different business structures in Solomon Islands
- ▶ discuss which business structures are suitable to operate in our community
- ▶ explain ways a business can be successful.

1 Introduction

Businesses are started by entrepreneurs. Sometimes a person will start a business on their own. Sometimes a person will join with other people to start a business. There are a number of different ways this can happen. These different ways are referred to as **business structures**. The word structure can be used to describe something that has been built. A business structure refers to how a business has been set up, and how many owners there are.

There are businesses owned by one person. There are businesses owned by a few people. There are also businesses owned by many people.

In this chapter, you will learn about the different business structures that can be found in Solomon Islands. These structures are allowed by the law. The government wants people to start up businesses. It also wants these businesses to be run properly. It wants to protect people who put money into businesses. It also wants to protect the people who buy goods from businesses, as well as businesses

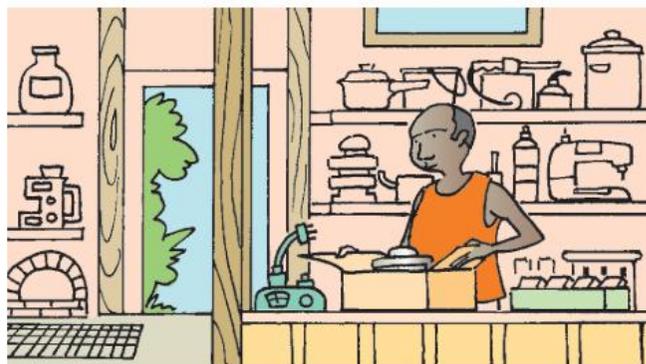


Figure 7.1 An example of sole trader, a partnership and a company

that sell goods and services to other businesses. There are laws that control how businesses are set up and run.

Most people who set up a small business at the village level can do so, without breaking any laws. This is providing that the activity itself is not illegal. For some businesses, there may be the need to get a licence or a permit. For example, someone who fishes on a large scale will need a commercial fishing licence. But such things apply to all businesses, regardless of business structure. This chapter will only look at laws to do with business structures.

Activity 1

In groups of three students, write down all the good things about owning a business alone. Also write down some of the problems there might be if there is only one owner.

2 Sole traders

A business owned by one person is called a **sole trader**. It is the simplest type of business. A sole trader can have other people working for him or her, but there is only one owner. Most small businesses are sole traders. Providing there is no need for a licence, and providing the person uses their own name for the business, there is no need to complete forms to start this type of business. If the person uses a different name for the business, then that name needs to be registered. This means that an official record is made of the business with a government department. If the sole trader employs other people, then tax laws must be followed, but this is usually only for larger sole trader businesses.

Sole traders can start up any kind of business. Small stores, bus businesses, fishing, and farming are all activities that can be carried out by a small business. The size of the sole trader's business will largely depend on how much money the owner can put into the business. This is one of the disadvantages of being a sole trader. Advantages are that this is an easy business to start, there are no complicated forms, and that the person starting the business can make all the decisions by themselves. The other side to this is that they may lack certain skills or knowledge that would make the business successful.

Very small sole trader businesses are less likely to get into debt. This is mainly because they are unable to buy goods on credit. However, if a sole trader does owe money to other people or businesses, and if they are taken to court, the court can order the sole trader to sell anything of value owned not only by the business, but also by the sole trader personally. This is known as **unlimited liability**. Liability means responsibility to pay. A sole trader's liability is not limited to how much

money they have put into the business. A sole trader can be asked to sell anything of value in order to pay back the debts of the business, including personal possessions that have nothing to do with the business itself.

Activity 2

- 1 Define what a sole trader is.
- 2 What is unlimited liability?
- 3 Why did Stephen want to change his business from being a sole trader to a partnership?
- 4 Research: Work in groups of five students. You are going to write a case study about a sole trader business near your school. First, you need to prepare some questions. Then you will use the questions to interview the sole trader. Lastly, you will write a case study about them.

3 Partnerships

Individual entrepreneurs (sole traders) may wish to expand their production, but lack either the necessary capital or the managerial ability. The oldest method for expansion is by forming a **partnership** business enterprise.

A partnership is a business structure that is made up of between 2–20 owners. There are businesses that are made up of a few people. They each contribute money to start the business. Each owner is called a **partner**. If there are two or three partners, and their names are used as the name of the business itself, then there is no need to fill out any forms or meet other requirements. If another name is used for the business, then this name needs to be registered with the government. The partnership business may also employ other people to work for them. These other people are not partners. They are employees.

A case study

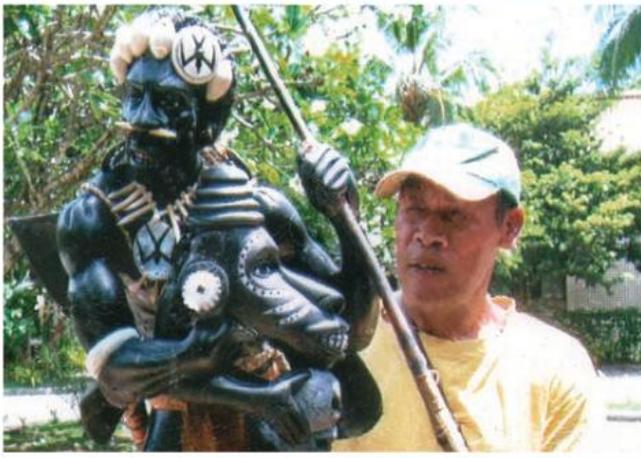


Figure 7.2 Stephen holding his carving at Palau cultural festival

Stephen Kabui is a father from Tangangoa village, Bellona Island. He left school at Standard four and became a carver. Stephen pays for his family's basic needs and wants such as his children's school fees by selling his carvings. Stephen learnt and acquired his skill and talents from his father and elder brother.

He was a sole trader for most of his life and in 2005 he registered his business as a sole trader and employed four other members: John and Peter are from Malaita, while Patrick and Eric are from Stephen's own island, Bellona. His aim is to expand his business into a partnership so that he can increase his skills and knowledge. He dreams of expanding his business in the future.



Figure 7.3 Stephen employed these men to do the carving.

Stephen is 48 years old and he has six children, one daughter and five sons. His wife Matilda works as a floral lady under Solomon Islands beautification scheme and she assists her husband by sandpapering and cleaning the carving after her own work finishes at 4 p.m.

In 2004, Stephen was surprised to win the first prize at a cultural festival in Palau with his frigate bird. The competition was among Pacific Islanders and he represented Solomon Islands. He did not know much English but he tried his best to answer the journalist's questions when interviewed after he won the Palau prize.

His success motivated him to register his business as a partnership in 2009. This cost \$1500. Since then Stephen and his four partners have won a few carvers' contract tenders in Honiara.

Stephen and his partners faced some problems in terms of money, and banks could not assist them because they did not own any assets. In order for them to continue and be successful, they rely on selling their carvings and getting paid by the company they are working for. They dream of applying for contracts abroad to work as carvers for projects in other countries.

Stephen's story shows us that with a mix of skill and talent, you do not need a lot of schooling to be successful. We can improve our skills and talents through practice and through the culture and talents of people throughout Solomon Islands. This needs patience and hard work.

Figure 7.4 An example of the type of carvings that Stephen's business produces



A case study

Let us look at an example of a partnership. LAS Automation Enterprise is a partnership business owned by Luke Hou from Are Are (Malaita Province), Andrew Kofela from Lau (Malaita Province), and Steve Torro from Tikopia (Temotu Province). LAS stands for the initials of their names. Initially, Luke, Andrew, and Steve were employees of a French technology company operating in Solomon Islands. They were employed to work as technicians in specialised technical areas.

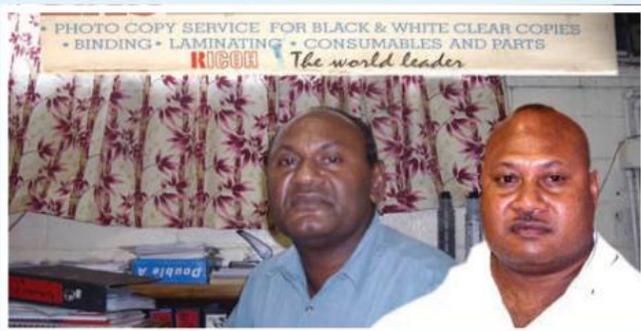


Figure 7.5 Luke and Andrew in their office

Luke Hou specialised in computer repair, Andrew specialised in operating and repairing photocopying machines, and Steve specialised in general operations and repair of machines.

Andrew finished Class three at Burns Creek Primary School, Luke finished Form five at St. Joseph's Tenaru and Steve finished Form five at King George VI School. They gained more knowledge and experience from on-the-job training while working for the French technology company.

Steve had the idea of forming a partnership business to provide similar services to the French company. He realised that there was a golden opportunity to create profit in such a business but he was unable to meet the whole cost to start up such a business. Therefore, he thought it would be a good idea if he and someone else could form a partnership by combining skills and resources. He shared this idea with Luke and Andrew and they all agreed to it. So, they secured a loan from the Development Bank of Solomon Islands (before it was closed down in 2004) using their NPF as security to meet the initial costs in starting the business. They also secured a room at the NPF Plaza building in Point Cruz to do their business.

The three did not leave the French company at the same time. They left one by one so as not to cause the company any problem. Steve left first to start up the business. Later, Andrew left to join Steve. Finally, Luke joined Steve and Andrew to work in their own business enterprise.

The services they provide are photocopying, binding, and repairing, and ordering machines for their customers.

The partnership really struggled at the start as it confronted a lot of problems associated with business life and none of them had acquired any business knowledge such as business planning, business organisation, or business management and control. They did not get advice from individuals but as they continued to operate they attended short courses at the Solomon Islands Small Business Enterprise of the Ministry of Commerce. They say confidently that they are now familiar with and used to life in business after going through all the challenges from the beginning.



Figure 7.6 Inside the LAS office in Point Cruz

Also, with obvious smiles on their faces, they say they have benefited greatly from their business. They say along with employment and income the business has also provided each of them with land, housing, vehicles, educational fees for their children, and other material things.

The aim for the future of their business is to expand their business. However, they are still studying and observing the market trends and economic conditions of the country.

Activity 3

- 1 Discuss LAS's reasons for forming a partnership.
- 2 What is the difference between a sole trader and a partnership?
- 3 Compare and list the advantages of partnership enterprise over sole trader enterprise.

Like any commercial arrangement, partnerships have advantages and disadvantages.

Advantages

- More capital is available to start the business by pooling funds.
- Partners can specialise in areas in which they have special skills.
- Work can be shared.
- Partners can take time off. If one partner is sick, the business can continue.

Disadvantages

- Arguments can happen among members.
- By law the number of members is limited to 20 and therefore a very large business cannot be formed.
- They are open to unlimited liability.

For a partnership business to have the best chance of succeeding, a **partnership agreement** should be made. This is just a document that sets out such things as how profit is to be shared, the responsibilities of each partner, and arrangements should a partner die or want to leave the partnership. Having a partnership agreement often prevents arguments as everything has been put down in writing and the arrangements between the partners are clear. It also makes it easier for the court to decide what should happen if there is a dispute. If there is no partnership agreement, then the law concerning partnerships is followed. This law says that all profits are to be shared equally among the partners even though they may not have contributed the same amounts of money to start the business. This law also says that if there is no partnership agreement saying otherwise, and the partnership business must be closed, any money must be shared among the partners.

Activity 4

- 1 Look at Figure 7.7 below. What are some advantages of a partnership as shown in the drawings?

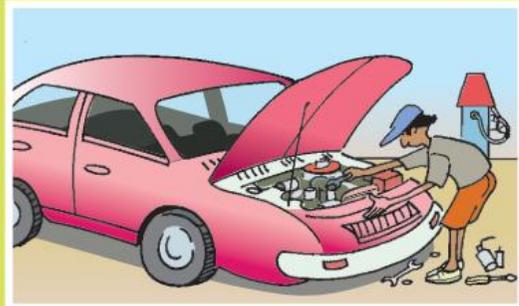


Figure 7.7 People in a partnership can bring different talents to the business.

- 2 Write down any other advantages that you can think of.
- 3 There are also some disadvantages of a partnership business. Look at Figure 7.8 below and then write down the main disadvantage of a partnership.



Figure 7.8 Sometimes, people in a partnership can have disagreements.

The partners, just like a sole trader, also have unlimited liability. If the partnership business ends up owing more money than the business itself has, then each partner will have to make up the difference by using their own money to pay off the debts of the business. This can be a big problem if a lot of money is owing to other people. The court can even order partners to sell their house or land in order to pay the money owing.

Activity 5

- 1 Mary, Kaire, Laurence, and Valentine form a partnership. Mary puts in \$2000, Kaire puts in \$1000, Laurence puts in \$5000, and Valentine puts in \$2000. In the first year, the business makes a profit of \$500.
 - a If they have a partnership agreement saying that each partner will share in profit in proportion to the money contributed to the business, how much of the profit will each partner receive?
 - b If they do not have a partnership agreement, how much would each partner be entitled to?
- 2 Ishmael, Barbara, and Ann start a business. Ishmael contributes \$10 000, Barbara puts in \$6000, and Ann puts in \$4000. The business makes a profit of \$2400.
 - a If they have a partnership agreement saying that each partner will share in profit in proportion to the money contributed to the business, how much of the profit will each partner receive?
 - b If they do not have partnership agreement, how much would each partner be entitled to?

4 Companies

A case study

Hi, my name is Justin Fu'o. I am the General Manager of the Tropic Glass & Aluminum Ltd Company. I came from Okwala village, Central Kwara'ae, Malaita Province. I am now a very successful businessman operating my business in Honiara.



Figure 7.9 Justin Fu'o in his office

My career has always been in the Glass and Aluminum glazing industry. The road to becoming a sole producer and entrepreneur in this field has not been easy. It has been a very difficult journey. Looking back today, I am happy that I have not quit during those early, trying years.

When I left Aligege Provincial Secondary School after three years in 1983, I did not have any clue what would become of me. I said this is the end of my schooling, and I must now get myself a job to make a living. Being a bush boy from the highlands of Malaita, I had never been away from my village, except to Auki a couple of times. But I was determined to make it. I had to strive to make a living and support my family.

On reaching Honiara, I stayed with relatives and landed a job with an aluminium glazing company. My job then as a factory hand was to clean the factory every day, issue cheques and receive all company tools and put them back safely in the tool room. This I did for a whole year. It was a pleasant surprise that in the second year, I was asked to become the factory foreman. The owner saw honesty and hard work and rewarded me with this

promotion. It was a huge challenge but I took it with pride and held on to this position for eight years.

In 1989, our company took a huge project with a local consortium that owned the City Centre building in Point Cruz. I was solely responsible for all glass and aluminium work. After completing the project in record time, my boss gave me an appreciation gift. That project gave me the push to think outside of the box and believe in myself. I can do it!

After nine years in this industry, I had the confidence to go solo and decided to start my own business. My boss was upset at losing me. But I begged him to release me in pursuit of my dream. I started a sole trading business in 1991, operating from a makeshift shed, with a little bank assistance from National Bank of Solomon Islands. Within four years the business grew rapidly and in 1995 I decided to register Tropic Glass & Aluminium (TGA) as a limited company. The company is jointly owned by two shareholders, I own 80% of shares and Alvin Ako owns the other 20%.



Figure 7.10 Justin Fu'o in front of his office

Four people make up the Board of Directors and look after the company. I am the chairman of the Board and also the chief executive officer of the company. Alvin Ako is the company's treasurer, and an assistant chairman, and we both share the responsibility of managing the day-to-day running of the company and making decisions. We ensure that we follow the Companies Act, which states the laws that companies must

follow. It is pleasing to note that my company is a licensed member of the Australia and New Zealand Windows and Doors Association, which ensures the company's quality for customers and creates interest in the company's products.

Although I had very little business knowledge, my faith in God is strong and I believe that with Him nothing is impossible. So after 15 years in this business, God has blessed us mightily and placed TGA in a prime position within the building and construction industry in Solomon Islands. What an honor to be a leader in this field. Today Tropic Glass & Aluminium (TGA) operates in the whole region, exporting to Papua New Guinea. TGA is confident of its products and we are telling our neighbours that Solomon Islanders can also do it.



Figure 7.11 Justin Fu'o signing a contract with a PNG businessman

Activity 6

- 1 From the case study, what is Justin Fu'o's main success based on?
- 2 In groups, discuss the success you listed in Question 1. Do you think you or other Solomon Islanders might one day follow this success? What would be the main problems?
- 3 List five companies in Solomon Islands which are owned by locals.

Many medium to large businesses are set up as companies like Tropic Glass & Aluminum. A **company** is a special type of business structure which is set up according to the law. It is much more difficult to set your business up as a company compared to a sole trader or partnership business. There are many forms to fill in, and many rules to be followed. And before the people starting the company can actually start buying or selling anything, they need to get approval from the government department responsible for companies. What is special about a company is that the law treats a company differently to a person. It is the company that owns the assets of the business, and it is the company that owes any money. **Assets** are what the business owns. If there are any problems, a creditor can take the company to court, but not the people who own the company.

The people who are part owners of a company are called shareholders. The ownership of the business is “shared” among several people. At the starting up of a company, a number of shares are available. Usually each share is equal to one vote on the board. If one person owns more than half of the shares, they control the company, as they can always win any vote that is taken. In some companies there can be hundreds, even thousands, of shareholders. They are all part owners of the company, but who is responsible for

managing the company? Those who buy the shares form a board to control the company.

A small group of shareholders is elected by all the shareholders to run the business of the company. These people are called **directors**. Sometimes they are referred to as a Board of Directors. One of the directors is elected to be **chair of the board**. The directors may also be involved in other companies and businesses. They may not have time to always be in the company’s office to make decisions. In order for someone to manage the company on a day-to-day basis, a **chief executive officer** (CEO) is appointed. This person may not be a shareholder, but they are responsible for managing the company and making decisions. If the Board of Directors is not happy with the CEO, they have the power to sack them and replace them with a new CEO.

If shareholders are not happy with any of the directors, they can elect new directors to replace them. There are many rules about how a company is run. These rules are contained in a law called the Companies Act. The Companies Act says, among other things, that the directors must hold an annual general meeting (AGM). (Annual means every year.) At this meeting, directors must report on how the company is going, including how much profit or loss has been made. New directors can be elected at the AGM.

Activity 7

- 1 What advantages are there in having a company as a business structure?
- 2 What are the disadvantages of a company as a business structure?
- 3 Explain how the liability of shareholders is “limited”.
- 4 Describe the different jobs done by the Chief Executive Officer and the Chairman of the Board of Directors.
- 5 Does a shareholder have any say in the running of a company? Explain your answer.
- 6 If a company started up by selling 10 000 \$2 shares, how much money would it raise?
- 7 A company has 10 000 shares, and has made a profit of \$5000. If all the profit is to be given back to shareholders, how much is given back (the dividend per share)?
- 8 The three main forms of business structures are sole trader, partnership, and company. Draw up a table like the one below and write the advantages and disadvantages of each business structure.

Business structure	Advantages	Disadvantages
Sole trader	?	?
Partnership	?	?
Company	?	?



Figure 7.12 This is an example of a company in Solomon Islands.

If the company has made a profit, the directors can choose to do a number of things. They can choose to put all of the profit back into the business. This allows the company to grow. They can decide to divide the profit up among all the shareholders. Each shareholder receives money called a **dividend**. The directors may choose to keep some of the profit so the company can grow, and to give the rest back to the shareholders in the form of dividends. Whatever they choose to do, they need to explain their actions to the shareholders at the next AGM.

It is usually possible for a shareholder to sell their shares to another person. This is an advantage of having a company business structure. It is more complicated for a partner to sell their part of a partnership. Unless this is provided for in the partnership agreement, it usually means the end of the partnership business. In some countries, there are stock exchanges to make it easier for people to buy and sell shares. (“Stock” is a word which can also be used instead of “share”.) The price at which shares can be bought and sold goes up and down.

By far the biggest advantage of a company as a business structure is that the shareholders have **limited liability**. This means that the responsibility of each shareholder to pay back debts of the business is “limited” to the value of their shares. If a person bought 100 \$5 shares in a company, their liability is limited to \$500. If the company is taken to court, the court can order that all of the assets of the business are sold to pay back the debt. If this is not enough to pay back all the debt, the creditors will not get back all the money that is owed to them. The shareholders cannot be asked to put in any more money. Their personal property is safe. Only the assets owned by the company itself can be sold.

“Limited” (shortened to “Ltd”) must be included in the name of the company. This is to allow any other business or person to know that they are dealing with a business which has limited liability.

5 Joint ventures

Sometimes, two companies work together to develop a business opportunity. Such an arrangement is called a **joint venture**. Both companies contribute money and skilled people to work on the project. This works like a partnership, but the partners are companies, not individual people. The companies agree on the amount of money each company contributes and how profit is distributed.

A case study

Many Solomon Islanders do not have money to start a big business; they do not have enough money to pay for very expensive building materials, to make a factory for example and they may not have management skills. Therefore, in order to have enough money to start a big business, they may choose to make a partnership with businesses in other countries.



Figure 7.13 Jeheil and his wife Cyrene

A good example of a Solomon Islands business firm in a joint venture with an overseas company is Fletcher Kwaimani. Jeheil Kwaimani came from Loina village, north Malaita. He started his primary education doing Standard one to three at Liona Primary School from 1954 to 1956. He was selected to

do his Standard four to six from 1957 to 1959 at Su'u Secondary School which was run by the SSEC mission. He was then selected among the 12 pioneers to do Standard seven at Onepusu Bible College in Malaita. Jeheil later applied to the British Solomon Islands Technical Institute from 1961 to 1962 and received a certificate of carpentry and building. He is married to Cyrene from Guadalcanal Province and they have five children.

Jeheil Kwaimani started a building firm named Kwaimani Construction Ltd and later decided to go into a joint venture business. In the late 1980s, Jeheil Kwaimani made an agreement for his building firm to join an overseas construction company named Fletcher, from New Zealand, which is well known in many Pacific Islands and even some other parts of the world.

When a company joins in business with another company, it is called a joint venture business. Both companies agreed to name the joint venture Fletcher Kwaimani. It is known as one of the largest building firms operating in Solomon Islands.

Fletcher provided the business with machines, expertise in buildings, management skills, and modern technology, while the local firm provided land and labour.



Figure 7.14 The main office at Ranadi

Both companies agreed to share their profit, 25% of the profit for Kwaimani Construction Ltd and 75% of the profit for Fletcher. Some of Fletcher Kwaimani's major constructions are Anthony Saru Building, the new Mataniko Bridge, Melanesia Pacific Haus, and Patrol Boat Base Wharf, all in Honiara.



Figure 7.15 Melanesia Pacific Haus

The joint venture firm helps the local tradespeople to gain experience, provides work for Solomon Islanders, and gives training to the local people in management, design, and construction techniques.



Figure 7.16 Anthony Saru Building

Activity 8

- 1 What type of business is a joint venture?
- 2a Why did Jehail Kwaimani start a joint venture?
 - b Why do you think two companies would come together to form a joint venture?
 - c Why would one company not try to just develop the project by itself?
- 3 Explain why some Solomon Islanders cannot start a big business by themselves.
- 4 Which of the following resources were provided by the local firm and which by the foreign company? In your exercise book, draw up a table like the one below, and complete it with the words in the list below.

machines expertise in designing land
unskilled labour management skills

Overseas company	Local company
?	?
?	?
?	?

- 5 List three ways in which joint venture businesses help Solomon Islanders.

It is also possible for a company to work with the government on a joint venture. This is referred to as a **public-private partnership** (PPP). The “public” refers to the government and “private” refers to one or more companies owned by shareholders. An example of a PPP is the development of Sol Plaza–Town Ground in Honiara. The company involved is Austree Enterprise Pty Ltd, which operates in Australia. It operates in partnership with the Solomon Islands Government.

Activity 9

What is a public–private partnership? In such an arrangement, what do you think the government is most likely to contribute? What would the company most likely contribute?

6 Cooperatives

To cooperate means to do something together or to help one another. A cooperative society is a type of business organisation that is made up of people with a common interest. This common interest may be that people produce and sell similar goods, such as copra, cocoa, fish, or honey, or buy and sell goods, together.

A case study

Imagine if you could be an owner of a business by contributing only \$200 of your own money. Other people who have the same interest as you could also join your business by contributing \$200. There is no limit to the number of owners so the amount of money contributed can be enough to start a business.

This type of business is called a cooperative. An example of this type of business is at the School of Education at Panatina Campus in Honiara. It started operating as a cooperative in 1992 after paying for its business licence.



Figure 7.17 Customers purchasing various drinks and food items from the canteen

In 2008, the cooperative had forty-four (44) owners (members) who were staff of the School of Education and they “cooperated” or worked together to start a small canteen that sells a variety of goods to consumers. By starting such a business, members of the cooperative plan to benefit by:

- buying goods in bulk at a lower price, saving customers, including themselves, money
- earning extra money from the profits made by the business

- ▶ saving time and money avoiding travelling to other shops in Honiara to buy some of the goods they need.

Because the members as consumers benefit from buying and consuming goods from the cooperative, this type of business is called a consumer cooperative.

The daily running of the cooperative business is managed and supervised by the Canteen Manager, who is also a member of the cooperative. The Canteen Manager is responsible for:

- ▶ checking which goods need to be ordered and purchased
- ▶ making sure that the shopkeeper is selling goods correctly and honestly
- ▶ making sure that proper records of goods sold each day are kept
- ▶ paying the correct amount of money as wages to the shopkeeper on a fortnightly basis
- ▶ presenting reports on how much profit/loss is made every three months and also at the end of each year.

The manager works closely with four other members of the cooperative. This group of people is called the Canteen Committee and they help the manager in the overall running of the business. Any important decisions that need to be made by the manager must be approved by this committee. For example, the shopkeeper employed to carry out the daily selling of goods to customers is chosen by the Canteen Committee. It is important to be able to identify and select a willing and honest person for the job.

Profit earned by the cooperative is shared equally among the members at the end of each year. In 2008, a net profit of \$30 986.70 was earned and this was shared equally among members. Members were able to earn approximately \$800 each.

Sometimes individual consumers can join with other consumers for their own benefit. They “cooperate” with each other in a way that allows everybody to benefit. A **consumers’ cooperative** is a group of consumers who join together to buy things in bulk at a lower price. An individual consumer may not have the money to buy cartons of a product. They may not want to have 24 tins or 48 tins of a particular product. However, if they join with other consumers, and each puts in some money, as a group they can afford to buy cartons of different products. They can then split up the contents so each person gets a couple of tins. They pay the wholesale price rather than the retail price. In this way, each consumer in the cooperative can save some money.

Small producers can also join together to help each other. In certain types of farming, a tractor may help prepare the land. However, if each farmer only has a small amount of land, then as individuals they cannot afford to each buy a tractor. If they join together so that a cooperative buys the tractor, they each only have to contribute a part of the cost. Each farmer can then take it in turn to use the tractor. Of course, there is always a chance that arguments will arise, but if everybody tries to be fair, then this arrangement benefits everyone. When producers get together to help each other in some way, this is called a **producers’ cooperative**. Another way producers can help each other is to join together to transport their product to a central selling point.



Figure 7.18 An example of a cooperative

Activity 10

- 1 Name any cooperatives you know and explain what they do.
- 2 What is the number of owners (members) for a cooperative business?
- 3 Who are the owners of the cooperative?
- 4 What are the benefits that members enjoy by starting the cooperative?
- 5 What other activities do you think are suitable for a cooperative type of business?
- 6 Explain how a consumers' cooperative can help its members save money.
- 7 Explain how a producers' cooperative can be of help to its members.

Activity 11

Are there any NGOs operating in your area? If there are, what are their names and what do they do in the community?

Activity 12

Case study research

Working individually, conduct research and write a case study on a local business near your school or in your town. Hand your case study in for your teacher to assess.

7 Non-government organisations (NGOs)

There is another group of organisations that supply either goods or services to consumers. These organisations are not businesses. This is because they do not aim to make a profit. These organisations can be called not-for-profit organisations, but more commonly today they are called **non-government organisations** (NGOs). The various churches in Solomon Islands are NGOs. Other NGOs are not involved with any church, but have been started to either help people or the environment. The Solomon Islands Development Trust (SIDT) is an example of an NGO.



Figure 7.19 An example of an NGO operating in Solomon Islands

Chapter summary

Chapter

7

The way the ownership of a business is arranged is called the business structure.

The five main types of business organisations are:

- sole traders
- partnerships
- companies
- joint ventures
- cooperative societies.

Sole traders and partnerships have unlimited liability.

The partnership agreement is a document containing information on how the partnership's operation should be conducted.

The two types of companies are:

- private company
- public company.

The owners of a company are called shareholders.

The people who look after the running of a company are called directors or are sometimes referred to as the Board of Directors.

The rules about how a company is run are set out in a law called the Companies Act.

The profit of a company that is divided among the shareholders is called the dividend.

The responsibility each shareholder has in paying back the debt of the business is limited to the value of their shares.

When two companies decide to work together in a business opportunity, such an arrangement is called a joint venture.

A consumer cooperative is a group of consumers who join together in order to buy or sell goods in bulk at a lower price.

A non-government organisation (NGO) is an organisation that supplies either goods or services to consumers and does not aim to make a profit.

Glossary

asset something the business owns

business structures the ways the ownership of a business can be arranged

chair of the board a company director who has the responsibility of being in charge of a company

chief executive officer (CEO) a person appointed by the Board of Directors of a company to manage the day-to-day running of a company

company a type of business structure that is recognised by the law as being separate from the owners

consumers' cooperative a group of consumers joined together to help each other, usually by putting their money together to buy in bulk and save money by not paying retail prices

directors shareholders who have been elected by other shareholders to look after the management of a company

dividend the part of the profit made by a company that is paid to a shareholder

joint venture when two companies work together to develop a business project

limited liability a legal arrangement in which the shareholders' responsibility for paying any debts of the company is limited to the value of the shares they own

non-government organisation (NGO) an organisation that aims to either help people or the environment, but not necessarily to make a profit

partner an owner in a partnership business

partnership a business owned by between two and twenty people

partnership agreement a document written by the partners stating such things as how profit is to be shared among the partners

producers' cooperative a cooperative made up of individual producers who join together to buy or transport and sell their products

public-private partnership (PPP) when a government works with a company on a business project

sole trader a business owned by one person

unlimited liability a legal arrangement in which the sole trader or partnership is responsible for paying all debts of a business, even if they have to sell their personal possessions

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define the terms marketing, advertising and potential market
- describe how information about location, demography, competition and target market is essential to business success or failure
- identify examples of business structures around the community who are successful
- discuss how this success relates to location, demography, competition and target market
- undertake some market research
- explain the main media used in advertising
- discuss how advertising can lead to attract customers.

1 Introduction



Figure 8.1 Why isn't Jenny selling any pandanus baskets?

Activity 1

Look at Figure 8.1 and answer the following questions.

- 1 What should Jenny do to improve her chances of selling her pandanus baskets? Why?
- 2 What else could she do to draw attention to her baskets?
- 3 What will happen if Jenny tries to sell her baskets at a very high price?
- 4 Where could Jenny have got her pandanus baskets from? Discuss the different ways she could have got them.

Marketing is a term that covers the whole process of getting goods and services to consumers. It comes from the word “market” but does not refer just to a place. We are also talking about all the consumers who want to buy a particular product. In a modern economy, the market is made up of all the people who want to sell a particular product, wherever they are. It is also made up of all the people who want to buy that product, wherever they are. Marketing involves identifying a **potential market**, developing the right product for that market, communicating with that market, pricing the product, and distributing the product to the consumer.

Some people think advertising is the same as marketing. **Advertising** is concerned with making a product known to the potential market. It is about communicating with the market, and is only part of the overall marketing process.

At this stage, it should be remembered that the product being marketed can be either a good or a service. Basically, the same approach can be used to market goods and to market services.

2 The distribution of goods and services

The word **distribution** refers to getting the goods from the producer to the consumer. It is an important part of marketing. It involves transportation, but it also usually involves the use of a **middleman**, a business that buys the goods from the producer and then sells on to other businesses until the goods eventually reach the consumer. In fact, there may be several businesses in the “middle”, helping the goods reach the consumer. The normal pattern is as follows.



Figure 8.2 The distribution of goods using direct selling

If the manufacturer/grower is overseas, there is usually another business that comes before the wholesaler. This is the importer or distributor.

From the diagram in Figure 8.2, it would appear that after the manufacturer/grower has sold the goods to the wholesaler, their job is done. The wholesaler then has the responsibility to sell the goods to the retailer, and the retailer’s job is to sell to consumers. All of these steps involve **direct selling**, which results in goods being exchanged for money. However, it is often the manufacturer who will take on the responsibility to advertise the product. This benefits retailers and wholesalers, as national advertising should result in more goods being sold by all of them. Indirectly, this is good for the manufacturers/growers as wholesalers will order more goods from them. From the manufacturer’s/grower’s point of view, or from the distributor’s point of view, their market is made up of all the consumers who buy their product. Yet manufacturers/growers and distributors do not usually sell directly to consumers. This is an example of

indirect selling, where manufacturers/growers are responsible for marketing their product, though not actually selling the products to the final consumers.

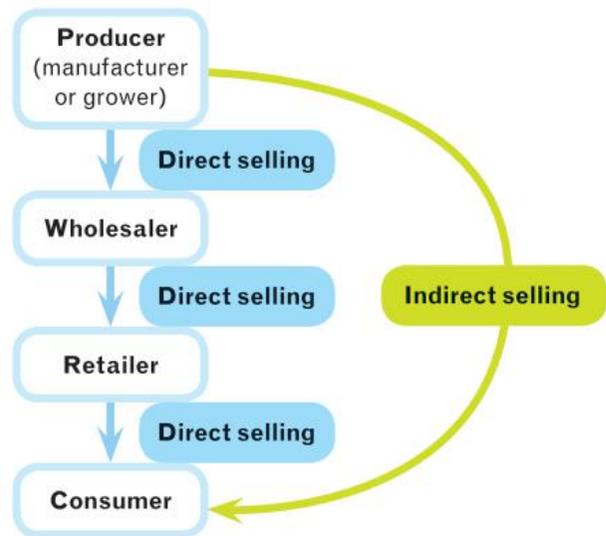


Figure 8.3 Producers sell indirectly to consumers

Activity 2

- 1 Bring in a range of empty tins (still with their labels on), or empty packets or boxes. (The teacher may also provide these.)

In groups of three, look at one particular product. In your exercise book, write down:

- a the name of the product
- b where it was made (it can be from Solomon Islands or from another country)
- c a diagram showing how it may have got to the store from which it was bought. (The diagram can look like the one in Figure 8.2.)

- 2 Explain the term “direct selling”. Identify any two local examples of firms using direct selling in the country.
- 3 What is meant by the term “indirect selling”? Identify any two local examples of firms using indirect selling in the country.
- 4 Name two types of businesses that act as middlemen in the distribution of goods.
- 5 Who usually takes responsibility for the advertising of products that are sold by retailers?
- 6 Why is location very important for retailers?

Small stores are examples of retailers. For retailers to be successful, they need to be careful about the **location** of their store. The store needs to be situated near enough people who might decide to buy goods from that store. In Figure 8.1, Jenny had chosen a very bad location to sell her baskets.

3 Identifying the target market

The **target market** refers to the group of consumers who might be interested in buying the product. These are the people you will try to sell your product to. Selling the product is when a consumer exchanges money, or the promise of money (credit), in return for the product. Although the main aim of marketing is to sell the product, it is only one stage in the whole process. If the earlier stages have not been done well, then there will not be much “selling”. On the other hand, the success of the overall marketing strategies of a business can be measured by how much of the product has been sold.

Consumer behavior

On page 93, it was shown that even though manufacturers/growers and distributors do not sell directly to consumers, they are nevertheless responsible for the overall marketing of the product. It is therefore the responsibility of the manufacturer/grower to identify consumer behaviour, habits, and needs and wants.

Market research is to do with getting information about a particular market. It can be carried out in different ways. It is through market research that businesses find out about consumer behaviour, habits, and needs and wants. One method is to conduct a survey. This involves writing a series of questions and getting people to answer them, either orally or in writing. The purpose of market research is to find out more about what consumers actually want. It can give you an idea as to how much money they would be prepared to pay. (This can help you set the selling price.) It can also help you identify which consumers are most likely to buy your product. This group is the target market.

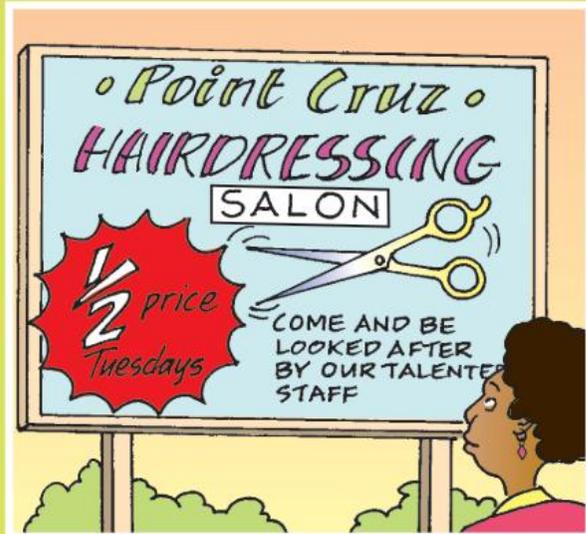
Activity 3

Look at the two advertisements below, and answer the questions that follow.

Advertisement A



Advertisement B



- 1 Are both advertisements aimed at the same target market?
- 2 Who do you think the target market for the product(s) advertised in “A” is? Describe these people in a sentence or two.
- 3 Who do you think the target market for the product(s) advertised in “B” is? Describe these people in a sentence or two.

Survey of demand for soft drink: Lemonade

<p>1 Age under 7 years <input type="checkbox"/></p> <p style="padding-left: 20px;">7–9 <input type="checkbox"/></p> <p style="padding-left: 20px;">10–13 <input type="checkbox"/></p> <p style="padding-left: 20px;">14–16 <input type="checkbox"/></p> <p style="padding-left: 20px;">17–20 <input type="checkbox"/></p> <p style="padding-left: 20px;">over 21 <input type="checkbox"/></p> <p>2 Gender Male <input type="checkbox"/></p> <p style="padding-left: 20px;">Female <input type="checkbox"/></p>	<p>3 How many times a week would you buy a drink from a store?</p> <p style="padding-left: 40px;">0 <input type="checkbox"/></p> <p style="padding-left: 40px;">1 <input type="checkbox"/></p> <p style="padding-left: 40px;">2–3 <input type="checkbox"/></p> <p style="padding-left: 40px;">4–5 <input type="checkbox"/></p> <p style="padding-left: 40px;">More than 6 <input type="checkbox"/></p> <p>4 What sort of drink do you prefer?</p> <p style="padding-left: 20px;">Flavoured milk <input type="checkbox"/></p> <p style="padding-left: 20px;">Fizzy drink <input type="checkbox"/></p> <p style="padding-left: 20px;">Juice <input type="checkbox"/></p>	<p>5 Did you know that lemons and limes contain Vitamin C, which is good for your health?</p> <p style="padding-left: 40px;">Yes <input type="checkbox"/></p> <p style="padding-left: 40px;">No <input type="checkbox"/></p> <p>6 Would you try homemade lemonade if it was available?</p> <p style="padding-left: 40px;">Yes <input type="checkbox"/></p> <p style="padding-left: 40px;">No <input type="checkbox"/></p>
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Figure 8.4 An example of a simple market survey

Activity 4

Group work

- 1** In your group, you are to do market research similar to the example in Figure 8.4. You could do your research around the school or in a community near your school and base it on a particular product. Think about the purpose of your questions. Prepare your questionnaires and then go and ask people.
- 2** Add up the results of all the people you asked. What use would this market research be to your school canteen? If you did the research in your village, what use would the market research be to a village store?

Demography

In the survey questions in Figure 8.4, people were asked to give their age and gender, whether they were male or female. The study of a community of people and how that community is made up of different age groups, how many males and females there are, and even what types of ethnic groups there are, is called **demography**. Business people need to look at the demography of the community in which they are interested in starting a business. If there are mainly

very young people in a particular area, then products that very young people are interested in buying could have a better chance of being sold. If a particular village has mainly older people, then products that older people are interested in could be more successful.

Market gaps

A successful business person often sees an opportunity that can be taken advantage of. They see that there is a need for a good or want which is not presently being provided. Any person who can spot an opportunity where people's needs and wants are not presently being met, has the chance to start a new business. The situation in which needs and wants are not presently being met is called a **market gap**. A simple example of this could be a man who buys some very cheap umbrellas or raincoats. He waits for a rainy day, and then takes his umbrellas and raincoats to where there are many office buildings, that are a long way from any shops selling umbrellas and raincoats. People who have not brought umbrellas or raincoats to work that day do not want to be stuck in the rain, or to wait a long time for the rain to stop. When they see the man selling cheap umbrellas or raincoats, many will be prepared to buy one. Of course, he sells them for a much higher price than the price he paid for them. The price should not be too high as no one will want to buy them, in spite of the rain. A person who can see a market gap is well on the way to becoming a successful business person.

Niche markets vs mass markets

Some products can meet the needs and wants of most people, young and old, male or female. An example of such a product is toothpaste. A market for products that are needed or wanted by most people is called a **mass market**. Usually there is a lot of competition in mass markets. Businesses need to be careful in mass markets as consumers can change their habits or their preferences. These markets are usually quite large.

There are also very small markets for products that only appeal to some people in the community. Such markets are called **niche markets**. These markets can be profitable, but only for a very small number of businesses. An example of a niche market is stethoscopes for doctors. There is only a small number of doctors, and other people in the community are simply not interested in buying such things as stethoscopes.



Figure 8.5 There is a mass market for rice, but there is only a niche market for stethoscopes.

Activity 5

- 1 What is a target market?
- 2 What is the purpose of market research?
- 3 How is demography useful for a business person?
- 4 Explain what is meant by a market gap. Suggest an example of a market gap which might be filled in your school or village.
- 5 What is the difference between a mass market and a niche market?
- 6 Discuss with your classmates:
 - a three examples of mass markets
 - b three examples of niche markets.
- 7 In which type of market would you expect there to be more competition, in a mass market or in a niche market?
- 8 What part does distribution play in the whole process of marketing? Explain in a couple of sentences.

4 Advertising

Advertising is to do with making a product known to consumers. It is an important part of marketing. How a product is made known to consumers involves choosing an appropriate medium, or, as it is usually referred to in its plural form, *media*. **Media** refers to the types of communication that are used to get a message across. In the case of advertising, the message is about a particular product. Examples of media that are used in advertising are the print media, radio, and television. The choice of which medium to use to advertise a particular product depends on two things: effectiveness in reaching an audience (the potential consumers), and cost.

Below are some of the main media used.

- ▶ **Print media** This involves the use of written messages and pictures that are printed on paper. The most common form of this is the advertising that appears in newspapers and magazines. However, other examples of print media include posters, leaflets, and brochures, and the telephone directory.

- ▶ **Broadcast media** This involves messages that are sent via the airwaves and includes radio and television. Radio is simple in that it only involves the transmission of words and in some cases songs or background music. (A catchy little song that mentions the name of the product being advertised is sometimes referred to as a **jingle**.) In Solomon Islands we have SIBC radio and FM radio, which reach the whole country. Television also involves the sending out of images, either static (not moving) or scenes as well as songs or music. It is not surprising then that television advertising is more expensive.
- ▶ **Billboards and signage** Billboards are large signs that are usually erected close to roads, or where large numbers of people gather, such as a sports stadium. Signs can be erected on the outside of buildings, and can be made of different materials. Some signs are made of neon lights, and are lit up when it gets dark.
- ▶ **Clothing** It is possible to have the name of your business, the logo or brand name, printed or embroidered on clothing. This may be done as part of a promotion, or simply as an ongoing way of advertising a product. In Solomon Islands people often walk around wearing T-shirts advertising a product.
- ▶ **The internet** The internet can also be used to advertise products. However, it is not used much in this country because of the small number of people who are connected to the internet. If you are aiming to advertise to people in other countries, for example about a village tourist resort, it is ideal. This is because a website can be viewed by many millions of people around the world. In countries like the United States of America, businesses now spend more on internet advertising than they do on print media and television.
- ▶ **Word of mouth** This is the cheapest means, and in some cases a very effective one, of advertising a product. It may start by giving away some free samples of the product, and then relying on the people who tried the product to tell their friends and relatives.



Figure 8.6 An example of a medium used in advertising

Activity 6

- 1 What do you think are the best media to reach the largest number of people in Solomon Islands?
- 2 Which of the above media could a small business afford to use?
- 3 Does the choice of media depend on the target market? Explain your answer.
- 4 Does anyone in the classroom own an item of clothing that is advertising a particular product? What products are being advertised?
- 5 Are there any billboards near your school? What are they advertising?
- 6 Suggest how and where you would advertise the following products: noodles, bicycles, children's toys, soccer balls, a tourist resort, and a taxi service.
- 7 Give three examples of products advertised on the radio or TV in Solomon Islands.

Providing information

An important part of marketing is communicating with consumers. This is usually done through advertising. Advertising is useful for consumers if it provides information. People need information to help them make decisions. Some advertising, however, is aimed at persuading people to buy the product, and contains very little useful information. Businesses can pay a lot of money to advertise their products, and this will be discussed later in the chapter. They want their advertising to be effective, to increase sales. This means that advertising is meant to be persuasive. Consumers need to be aware of this, and make sure that the product will meet a need or want before buying it.

Businesses use persuasive advertising to get people to buy their products. They make a lot of claims as to how good their product is. However, they need to be careful not to make misleading claims about their products. A business breaks the law if their advertisements make false claims.

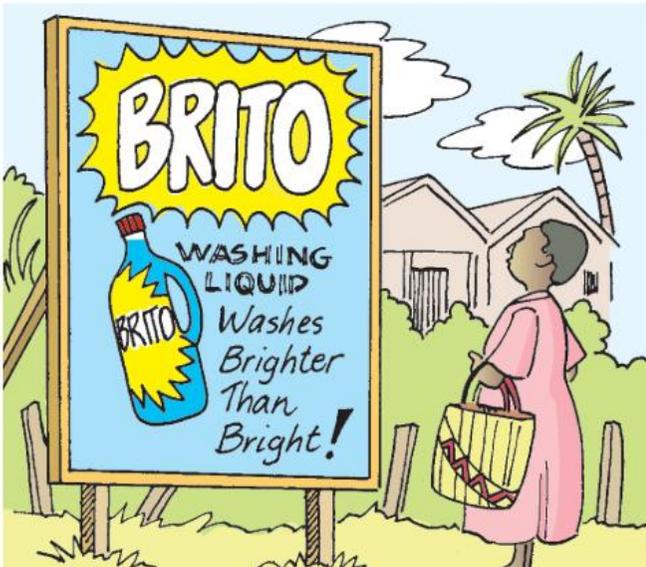


Figure 8.7 Some advertisements make amazing claims about how good the product is.

Most businesses do the right thing, and are responsible with their marketing. Consumers have the right to expect advertising to be truthful about the products being marketed.

Activity 7

- 1 Cut out some advertisements from an old newspaper.
- 2 Arrange them under two headings:
 - Advertisements containing useful information about the product
 - Advertisements which contain very little useful information, but are simply persuasive.
- 3 Compare your advertisements with those of your classmates.

Level of competition

The marketing strategies used by a business will be very different depending on the level of competition. How many other businesses are trying to sell a similar product? Each business tries to get a share of the market, or **market share**. The bigger the market share a business has the greater are its sales. Some businesses try to get a bigger market share by starting an aggressive marketing campaign. They also want to establish their brand name in the thinking of its customers. The **brand name** is the name given to a particular product by the manufacturer. It is not always the name of the manufacturer itself. For example, the same company that makes Coca-Cola also makes Fanta. When a particular brand of product is popular and well known in a market, this makes it more difficult for new businesses to enter this market.

Responsible advertising

There can be health issues around the marketing of **junk foods** or drinks. These are foods and drinks that contain high amounts of sugar, salt or fat, or a combination of these. Sugar and salt make food taste good, especially for young people. Eating small quantities of such food will do little harm to the health of consumers. However, if consumers eat these foods in large quantities, then serious health problems can arise. Diabetes, obesity, and heart disease can result from eating too much junk food. Do the manufacturers of such foods have any responsibilities when it comes to marketing such products? Legally, they may not be breaking any laws when they use persuasive advertising. However, there may be ethical issues involved, especially if they target young children with their marketing. However, parents need to be responsible when it comes to deciding which products they allow their children to buy.



Figure 8.8 If the marketing of junk food is too successful, there can be serious health consequences from over consumption.

Activity 8

- 1 How can advertising be useful for consumers? Explain in a sentence or two.
- 2 What is meant by the term “junk food”? Write down three examples of products that could be considered to be junk foods or drinks and which are commonly advertised in Solomon Islands.
- 3 Consider this statement: There should be government controls over how junk foods are advertised.
 - a Write down arguments to support the topic.
 - b Write down arguments against the topic.
- 4 a Draw up a table in your exercise book, like the one below. Write in a brand name for each product.

Product	Brand
toothpaste	?
washing powder	?
soap	?
car	?
radio	?
sports shoes	?
outboard motor	?

- b Why is it that you know these brand names and not others?

Activity 9

Research questions

Working in groups, complete the following activity.

Imagine that you are business owners. Select the type of business that you will run and the types of products that you sell. As a group, decide what type of advertising would be best for selling your product and come up with an advertising campaign for your business.

- 1 Start by collecting information about how local businesses advertise in order to compete with other businesses and how they pass on information about their products to consumers or the public.
- 2 Create a plan for running your business. Draw a diagram on your chart paper to explain how your business operates and how it interacts with consumers.
- 3 Come up with an advertising campaign and draw and/or write your plan on chart paper. You should include information about how you will advertise your business and entice consumers to want to buy your product, for example, by putting advertising on a T-shirt or designing a slogan for a newspaper ad or billboard.

DO NOT WRITE IN THIS BOOK

Chapter summary

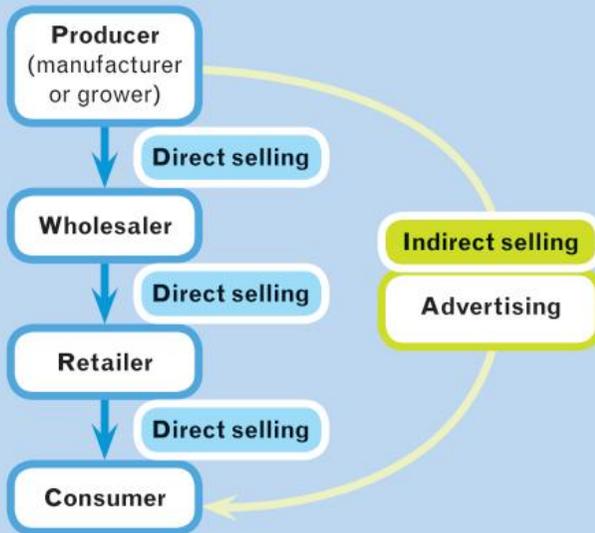
Chapter

8

Marketing is a process of getting goods and services to consumers. It involves:

- identifying the potential market
- developing the right product
- communicating to potential customers
- pricing the product
- distributing the product.

The diagram below shows the distribution of goods.



A target market is a group of consumers who might be interested in buying the product. It is very important to identify consumer behaviour for the overall marketing of a product.

Market research is to do with getting information about a particular product.

This can be done by:

- identifying consumer behaviour
- identifying habits
- assessing needs
- assessing wants.

The purpose of market research is to find out more about what consumers actually want.

Demography is the study of a community and how that community is made up of different age groups.

A market gap is a situation in which the needs and wants of consumers are not presently being met.

A mass market is a market for products that are needed or wanted by most people.

A niche market is a very small market for a product that is wanted only by some people in the community.

Making the product known to the consumer is called advertising. The methods of advertising are:

- 1 media
 - broadcasting
 - billboards and signs
 - internet
- 2 clothing
- 3 word of mouth.

Marketing strategies used by businesses vary, depending on the level of competition.

Glossary

advertising making a product known to consumers

brand name the name given to a particular product by the manufacturer

demography the study of a community of people, its ethnic groups, gender ratio, etc.

direct selling when goods are exchanged directly for money

distribution getting the goods from the producer to the consumer

indirect selling where manufacturers/growers are responsible for marketing their product, while not actually selling the product to the final consumers

jingle a catchy, usually short, song that mentions the name of the product being advertised

junk foods foods that contain high amounts of sugar, salt or fat, or a combination of these

location where something is situated or set up

market gap where there is a need for a good or want which is not presently being provided

marketing the whole process of getting goods and services to consumers

market share how much of the total goods being sold is supplied by a particular business

mass market a market for products that are needed or wanted by most people

media the types of communication that are used to get across a message

middleman a business that buys the goods from the producer and then sells on to other businesses until the goods eventually reach the consumer

niche markets very small markets for products that only appeal to some people in the community

potential market the number of customers who might be willing to buy the product

target market the group of consumers who might be interested in buying the product

Modern and Traditional Business

Specific learning outcomes

By the end of this chapter, learners should be able to:

- define traditional business, modern business, dual economy and commerce
- differentiate between modern business and traditional business practices
- explain how trade and exchange occurred in both the modern business and traditional businesses
- list the key factors of having modern and traditional businesses in the community
- discuss the advantages and disadvantages of the wantok system for modern businesses practices
- discuss the definition of corruption in relation to religious teachings, businesses practice and leadership in enterprise.

1 Introduction

The Solomon Islands economy is usually described as having a dual economic system. Economy refers to the systems or ways of doing production and trading in a particular country. The word “dual” means twofold or double. A **dual economy** is one where two economic systems exist side by side. Solomon Islands’ two systems are: the traditional economy and the modern or **cash** economy.

Solomon Islanders use both economies. People in the village produce food in their gardens for their own consumption, build houses from bush materials, and prepare their own custom dances. In the village, there are still some barter deals and traditional money can be used for the payment of bride price, pigs,

compensation, and land. But in the same village, some houses may be made of corrugated iron and other manufactured materials. These materials do not come from the bush; they were obtained from the hardware shops in town. Everybody in the village uses soap, kerosene for lighting, cooking pots, plates and spoons, clothes, and the list goes on. All these are bought from the store using cash or modern money. Many people in Solomon Islands depend on both economic systems for their survival.

2 Features of traditional business



Figure 9.1 Traditional money is still used in villages.

Activity 1

- 1 Look at the photographs in Figure 9.1. Describe what you see and discuss why it might be considered part of a traditional business.
- 2 List other traditional businesses and explain the reasons why you consider them to be businesses.

3 Features of modern business



Figure 9.2 Money is used for exchange of goods in many different ways in modern business.

Activity 2

- 1 Look at Figure 9.2. How are these examples of modern business rather than traditional business?
- 2 List other modern businesses and explain the reasons why they are modern businesses.
- 3 List the differences between traditional business and modern business.

4 Commerce or trade in traditional business



Figure 9.3 Money can be used for bride price, for compensation, or to buy goods or land.

Commerce is not new to Solomon Islands. We had commerce even before the white men came to our shores. Commerce is concerned with how food and things that are useful get to the people who want them.

The concepts of trade and commerce always go together. Commerce describes the process of how the goods and services get to the people who want them. The process includes production, transportation, distribution, marketing, and exchange. The concept of trade only concerns some of the process, such as distribution, marketing, and exchange. Traditional commerce and trade usually occurred in barter, marriage, funerals, and feasting. There are many examples of traditional trade. Goods that were traded included taro, sago, coconuts, fish, potato, betel nut, lime, salt, pigs, dogs, bark cloths, and dolphins' teeth.

In previous chapters, you already learnt briefly about the nature of both the traditional and modern business systems. In those chapters, you discovered concepts such as resources, production, needs and wants, barter, buying, and selling. These terms will help you understand the concept of commerce in both traditional and modern business that you will learn in this unit.

Activity 3

To help you to recall some of the characteristics of traditional and modern business, answer the following questions.

- 1 Explain how people got goods and services that they did not produce in the traditional system.
- 2 Look again at the photos in Figure 9.2. List and discuss the kind of exchange that takes place in each photo.

5 Commerce or trade in modern business

When Europeans came, they brought their own money with them. This money started to change our traditional commerce in Solomon Islands. It changed the way the exchange of goods took place.

Before the Europeans came, there was traditional money in nearly all of our provinces. But this traditional money was not used every day to get simple goods. It was used on special occasions, for example, as a bride price. The European money could be used at any time.

Today, goods are not usually exchanged for other goods. Goods are now exchanged for money. People do not have to find other people who want what they have and who have what they want. People can exchange their goods for money. Then they can use this money in exchange for the goods they want. In Year 8, we will look more deeply at modern money, its characteristics, and uses.

Earlier in this chapter, we learnt that commerce is the production of goods and services and how these goods and services get to consumers. Consumers are people who consume the goods and services. In subsistence living, people produce most of the goods they need by

themselves. They consume the goods they produce. Sometimes people have a surplus of goods. This may be because they specialise in producing these goods. People also have shortages. The fact that there is a shortage and surplus in every society is the very reason for trade and commerce to take place.

Today many people do not produce all the goods they need by themselves. People specialise much more than they used to. They produce a surplus that they sell for money. Some people exchange their work for money. They are paid a wage. They use this money to buy the goods and services they want. They consume goods that have been produced by other people.

In Solomon Islands, as well as other countries such as Fiji, New Zealand, and Australia, the money used is called dollars and cents. Although the name can be the same, their value is different from country to country. Other countries use a different name for their modern money. In Papua New Guinea, their money is called kina and toea. Whatever the money is called, it is usually in the form of notes and coins. People use notes and coins to pay for food, clothing, and other things they want in life.

Activity 4

- 1 Are there any problems with the barter system? Discuss in a group.
- 2 In the old days, were there any shortages of traditional goods? What did your people do to solve this problem?
- 3 In the old days, was there any surplus production? What did your people do with the surplus?
- 4 Does the use of modern money make exchange easy? Explain your reasons.
- 5 Has everyone shifted to a cash society because money is easier to use? And what influences make some people hold on to the traditional way of business and commerce today?

6 Aims of traditional business



Figure 9.4 Traditional scenes in Solomon Islands: a market, a wedding, and a feast

The basic aim of traditional business was to help one another to get goods and services that people could not produce for themselves. It was also a way of helping one another in times of trouble and need. The traditional system is a way of saving and a form of insurance for times of trouble or need.

Activity 5

- 1 Which photographs in Figure 9.4 show how people get goods or services they can't produce or provide themselves?
- 2 Indicate which photographs show the traditional way of saving or insurance and discuss your reasons.
- 3 How do people save in the traditional system? Explain.
- 4 How do people benefit from their savings in relation to weddings and feasting?
- 5 What do you think will happen to someone in the future who helps or contributes to his relatives during events of marriage, funerals, and feasting?

7 Aims of modern business

The basic aim of modern business is to earn an income. An income is the reward for doing something. The reward for labour is wages or salary. The reward for land is rent. The reward for capital is interest. The reward for enterprise is profit. These incomes are in the form of cash. Cash is the notes and coins of modern money. People earn these incomes to pay for all the things they want. How many valuable things people own reflects the amount of income they get. Figure 9.5 shows some of the basic things people really want to buy with money.

In modern business, goods are produced and exchanged for cash. With the introduction of modern money, trading has become much easier. If you want something and you have money, you give money to the seller and get the goods or the service you want. Finding a buyer or a seller in the modern system is much easier than it was in the traditional barter system. In the modern system you don't have to argue about what to get in exchange. The person who sells the goods gets the money and then buys whatever they need from the store or from other people. In this system you can have many people or customers to trade with, unlike in the traditional system where you have only one or two partners to trade with.



Figure 9.5 People earn an income to buy a whole range of goods and services.

With money around you, you can start to specialise. In the village, you can produce copra or cocoa, get money for it, and, with the money, buy the things you want in the trade store. In Solomon Islands today, almost everybody tries to make something to sell for money. It is very important nowadays because people wear modern clothes, use kerosene for lighting, wash with soap, cook in modern pots, and eat with modern plates and spoons, which they must buy with money from the shops.

Throughout our society, you can see people trying to do something to earn money. Even in rural areas, people produce goods for direct consumption and some extra or surplus to sell for money. People use the extra money they get from selling their surplus to pay for kerosene, soap, and other things they need from the store.

People earn money in many different ways. Some people run a business, some people work for others, and some people produce either goods or a service in order to earn money. Being able to buy things with money means that people have a much wider choice. It makes it possible to acquire many valuable goods such as radios, outboard motors, and DVD players.

Activity 6

- 1 List any five activities that people in your village do to earn money.
- 2 List any five basic things that people in your village or community buy with the money they earn.
- 3 Do people in your village sell all the things they produce, or do they consume part of them?
- 4 Is trading in the modern system easier than trading in the traditional system? Explain.
- 5 Suggest why the traditional ways of doing business are dying out.

8 Risks to traditional business

There are five basic factors as to why traditional business is declining.

- 1 The need to obtain modern goods and services**
Most things we wear and have in our homes and community are modern and foreign made. We obtain them using money. We get money through cash activities in modern business. Our traditional way of exchange is barter. However, today we produce our traditional goods such as carvings, traditional baskets, and garden crops to sell for cash. We then use this cash to pay for the things we want from the shops.
- 2 Education** The way we think and do things has changed a lot since Europeans introduced formal education. Many people think and do things differently from our traditional ways. Today we can read and write. We are able to use different tools and machines. We have many skills that we never had in traditional times.
- 3 Church** With the arrival of the church and its teachings, we have rejected some of our traditional practices such as traditional marriage, feasting, and funerals. Some of our churches discourage us from chewing betel nut, smoking or wearing traditional costumes or ornaments such as necklaces, earrings, or tattoos.
- 4 Medicine** We have put our trust in modern health and medical treatments, rather than continuing to use traditional healing and medications. In the olden days, traditional healing was very effective. While modern medicine is effective, it means that we have lost our knowledge of traditional herbs, which can also be very useful.
- 5 Modern business and the cash economy** Modern business has its own set of rules and procedures. Therefore, as people try to earn an income from modern business, the traditional business practices have to be put aside. Goods from the store cannot be given free to relatives. Relatives must not ride freely in the taxi or on the bus. Money from the business cannot be used freely for family or *wantok* events.

These five factors have greatly reduced traditional business practices. However, these factors and their influences should not pressure us to lose our culture and traditional business practices. We need to strengthen our traditional institutions of the chiefly system and communal work practices. We also need to establish some constitutional instruments at the national government level to protect and maintain our traditional business practices. It is important not to forget our traditions with the arrival of modern influences.

Activity 7

- 1 Compare and list the differences between a traditional business and a modern business.
- 2 List three traditional aspects and three modern aspects currently practised within your community.
- 3 What does it mean to say “traditional business practices have been put aside”?
- 4 What do you think we should do to stop our traditions from dying out?

9 Risks to modern business

While traditional business practices are under threat by the modern practices, modern business is also under threat by the traditional practices. Traditional practices such as the extended family and the *wantok* system also put modern business at risk of failing. The extended family and blood ties between family members put pressure on business owners to supply goods or money from the business to family members and relatives. Other traditional obligations such as marriages and funerals also pressurise business owners to give money from the business. Money and goods are for a business to have the necessary funds for its operations. The money a business receives is called **revenue** and the money a business spends is called its **expenditure**. When the revenue of the business is greater than its expenditure, we say the business has made a **profit**. When the expenses of a business are greater than its revenue, we say the

business has made a loss. Therefore business owners need to manage their business carefully so that their business survives and does not make a loss.

People also need money to survive. We need money for our basic needs such as rice, sugar, salt, noodles, soap, and kerosene. We need to manage our limited income until we receive the next income. If we spend all our income at once because of traditional obligations, then we will be in serious difficulties. People who do this may end up stealing from other people, accepting bribes or being involved in prostitution in order to survive.

For a business to survive in this modern cash economy, the owner needs to understand modern business rules and procedure. Also, individuals need to manage money properly in order to live a moderate and sustainable life.

Does this mean a business person must never give gifts or money to traditional ceremonies or give *kaon* to their family or community? There is nothing wrong with being generous, giving gifts, contributions to ceremonies, or even giving *kaon* as long as it does not lead to the breakdown of the business. Businesses should help others in the village or community. If a business is making a profit, it can give away some of the profit in gifts as long as it keeps enough goods to sell and enough money or “capital” to buy more goods to continue to run the business.

It is up to each business person to decide how they will operate. If a person’s only interest is to make as much money as possible, they will not give gifts or *kaon*. However, in Solomon Islands culture, giving and sharing is very important. People are taught from an early age to share with others and a rich person is respected for giving their wealth rather than keeping it to themselves. There is a danger that these traditions will be lost if we decide the only objective of business is to make money.

Activity 8

- 1 Do you live in an extended family or a nuclear family setting?
- 2 Does your family contribute often towards the marriages and funeral ceremonies of your relatives?
- 3 Has your family given money or goods, either from your business or from family possessions, to other relatives?
- 4 How can extended family and *wantok* practices lead to business failure?
- 5 What strategy should a business owner use to avoid this?

10 Corruption and leadership in business

The co-existence of the traditional and modern economic systems in Solomon Islands’ economy has led to concerns and confusion. These systems provide different views about actions one may take in a business activity. A person who uses their position in a business to change or influence government employees or other businesses, or to make money for themselves, is involved in **corruption**.

Corruption is the misuse of entrusted power for private gain. There are many types of corruption, including bribery, extortion, nepotism, abuse of power and privilege and embezzlement. There is plenty of opportunity for corruption in business. The subject of corruption has become a problem of great concern in our society today, in both public and private sectors.

Activity 9

Read the following stories and in each case say who is guilty of a crime and in what way.

Story 1

Fred Sika owns three buses. He drives one himself and employs drivers and conductors for the other two. He notices that the bus he runs makes more money than the other two buses so he asks some friends to ride on the buses and check on what is happening. One friend reports that the conductor was putting some of the money from fares in his own pocket. Another friend says that the conductor was letting all his *wantoks* ride free.

- 1 Who is guilty of a crime?
- 2 What crime did they commit?

Story 2

Moses Kana is a builder. The priest at his local church told him that they were proposing to build an extension to the church. Moses offered to give some money each month to the priest to help with his family, as long as the church gave him the contract for building.

- 3 Who is guilty of corruption?
- 4 What corruption did he commit?

Story 3

Margret started a store in a small town that had three other stores already. She arranged with a businessman in Honiara to supply her with cheap goods so she could charge lower prices than the other stores until they couldn't sell their goods and had to close. Then she increased her prices and paid more to the businessman, who knew that he could always sell plenty of goods to her.

- 5 Who is guilty of corruption?
- 6 What corruption did he/she commit?

Story 4

Malaki runs a tourist resort and became campaign manager for Bernard, who was standing for election. Malaki gave a lot of money to Bernard's campaign. When Bernard was elected he made sure that a big government grant was given to Malaki to develop his resort.

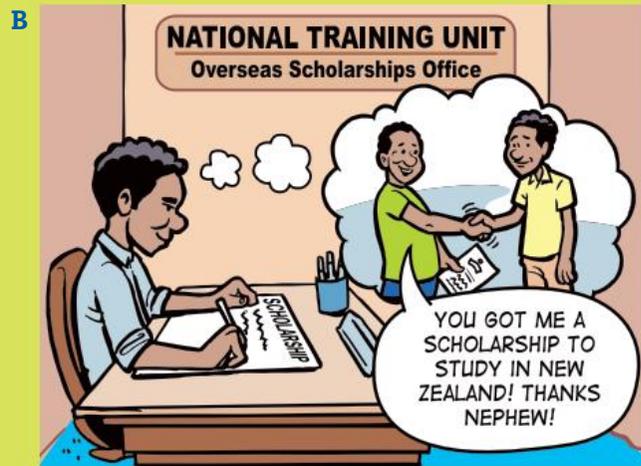
- 7 Who is guilty of corruption?
- 8 What corruption did he commit?

Activity 10

- 1 Working in small groups, examine the illustrations below and read the brief descriptions.
- 2 Discuss what you think is happening in each illustration about corruption. What type of corruption is being shown: bribery, extortion, nepotism, abuse of power and privilege or embezzlement? Who is involved in the corruption? How should the person in the position of power in each scenario be acting?
- 3 Write your observations about each scenario on chart paper or in your exercise book. Present your answers to the rest of the class.



An officer used the office truck and was with his friends drinking beer at the sea side. The officer said, "No one will see us so do not worry."



An officer at NTU is giving a scholarship to his uncle to study overseas even though it is not merited.



A Human Resources officer offered a work position to his wantok without interviewing others.



During work hours the director of the department used the office truck to run his own affairs.

Chapter summary

Chapter

9

Commerce is the process that involves the production of goods and how these goods get to those who want them. Commerce exists in both the modern and traditional systems.

Specialisation occurs in both traditional and modern systems. Specialisation takes place by having special knowledge and skill, and leads to trade.

Trade enables people to make relationships with other people. In the traditional system, a person finds a partner to trade with, and each person becomes both a supplier and a consumer. In the modern system, the supplier receives money from the consumer and then uses the money to buy what he/she wants from other suppliers of other goods. Consumers who buy from a supplier are often referred to as the customers of the supplier.

The aim of traditional commerce was to help one another to get what each person did not produce.

The aim of modern commerce is to earn money and then use this money to buy things from other people or businesses. Modern commerce is becoming more common, since the introduction of modern money. The cash system operates through the use of modern money in transactions as a medium of exchange.

Solomon Islands has a dual economy because the traditional economy and the modern economy exist and work side by side.

Corruption is a serious issue in Solomon Islands and it badly affects modern business and administrative functions in all sectors. Corruption results partly when traditional ideas and values break down.

Glossary

cash modern money (notes and coins), used to pay for goods and services

commerce the process that involves the production of goods and services, and how these goods and services get to consumers

corruption the misuse of entrusted power for private gain

dual economy an economy where two economic systems exist side by side

expenditure the amount of money spent

profit the money earned, after expenses have been paid

revenue total money received

specialisation concentration on the production of one type of good or service

Solomon Islands Business Studies Year 7

Learner's Book

Solomon Islands Business Studies Year 7 Learner's Book aims to educate students in a practical way so that they can contribute to the economic growth of the country. Business Studies enables learners to gain skills, attitudes and values that relate to economic issues, which they will be able to apply to their own lives as they contribute to their family, the community and the country. Examples are provided of local businesses, and case studies highlight the challenges and rewards of business. Learners will learn how:

- businesses operate
- to manage and use business money appropriately
- to fill in documentation
- to undertake transactions
- to use available resources to meet their needs and wants.

Business Studies is part of the Solomon Islands Years 7–9 series and is based on the Reform of Solomon Islands School Curriculum. The key learning outcomes in the curriculum are addressed in the activities in this Learner's Book. The practical activities encourage learners to:

- apply and extend their skills
- think about business-related challenges
- engage in tasks which will deepen their understanding of how the economy works and the role that they may play in it.

