

BUSINESS STUDIES NOTES

FORM 3 SIMPLIFIED VERSION

QUICK REVISION NOTES

*An Updated Well-Organized Detailed Revision Notes for the
Current Form 3 Syllabus.*

SERIES 1

THIS IS A FREE SAMPLE OF THE
ORIGINAL NOTES

CONTACT US FOR FULL VERSION OF THE NOTES

Mr Isaboke 0746 222 000

MWALIMU CONSULTANCY

Copyright ©Mwalimu

All rights reserved. This book or any portion thereof may not be reproduced or used in any manner whatsoever without the express written permission of the publisher except for the use of brief quotations in a book review.

Printed in Kenya

00100

Nairobi

0746-222-000

mwalimuconsultancy@gmail.com

Mwalimu Consultancy Ltd.

TOPIC 1: DEMAND

CONTENTS

- **Introduction**
- **Factors influencing demand**
- **Types of demand**
- **Demand schedule and demand curve**

INTRODUCTION

- ✓ Demand refers to the quantity of a good or service which is purchased at a specific price within a given period of time.
- ✓ Demand therefore exists only when there is willingness and ability to pay for the product.

The Law Of Demand

The law of demand states that, “with all other factors held constant, the higher the market price, the lower the market demand and vice versa”

Assumptions of the law of demand

- a) The demand for a product is normal and not habit forming
- b) Demand and price in the market are constant for a specific period of time
- c) Consumers’ tastes and preferences do not change
- d) There are no anticipated future changes in market price
- e) There is no change in the income levels of the consumers
- f) There are no changes in the prices of related products

FACTORS INFLUENCING DEMAND

- a) Price of the product
- b) Price and availability of related products
- c) Income of consumers
- d) Tastes and preferences
- e) Consumer expectations
- f) Size of the population

- g) Income distribution
- h) Government policies
- i) Sociological factors
- j) Seasonal changes
- k) Terms of sale

Price Of The Product

For a normal product, the higher the market price, the lower the market demand and vice versa.

Price And Availability Of Related Products

Related products are classified into two:

- Substitutes
- Compliments

Substitutes: These are products that can be used in place of one another e.g. tea and coffee. If the price for one substitute product goes up, its demand falls as consumers switch to the other product.

Compliments: Compliments are those products which are used together e.g. car and petrol. If the price for one product increases, its demand will fall and so will be the demand for its complement.

Income Of Consumers

Income determines the ability of consumers to buy. The higher the income, the higher the demand and vice versa.

Tastes And Preferences

Taste is the desire of the product by the consumer due to the satisfaction he derives from using the product. When consumer tastes and preferences change in favor of the product, its demand will increase and vice versa.

Consumer Expectations

Expectations refer to future anticipated changes. These changes may relate to price and supply.

When consumers expect price to fall in future, they will buy less now and more in future. On the other hand, if consumers expect a future shortage, they will buy more now and less later.

Size Of Population

An increase in population means more products are demanded to satisfy the needs of the growing population. The opposite will happen if the population decreases.

Income Distribution

When income is evenly distributed, more consumers will have the ability to buy hence demand will increase. On the other hand, when income is in the hands of a few, ability to buy is reduced hence demand decreases.

Government Policies

Government influences demand through the following methods:

- Taxation
- Subsidies
- Legislations
- Price control

Taxation: Imposing a tax increases the price of the product hence reducing its demand. On the other hand a reduction in tax will reduce price leading to price reduction.

Subsidies: Subsidies reduce the production costs enabling producers reduce their selling prices hence increasing demand.

Legislations: The government may pass laws that encourage or discourage consumption of certain products e.g. cigarettes. This will increase or decrease demand for such product.

Price control: The government may control the price of certain products by ensuring that they don't exceed certain limits. This move will increase the demand for such products.

Sociological

Factors

Refers to factors such as age, education, marital status, culture etc. All these factors may dictate the kind and amount of product consumers' demand. For instance, young people are likely to buy more movies than the aged.

Seasonal Changes

Demand for some products depends on the season. For example, umbrellas are demanded more during the rainy season.

Terms Of Sale

Terms of sale refers to credit, cash sales or discounts. When terms of sale are favorable, demand will be high unlike when they are unfavorable.

TYPES OF DEMAND

There are FOUR types of demand:

- Joint demand
- Derived demand
- Competitive demand
- Composite demand

Joint Demand

This is demand that arises from complementary goods. It is the demand that exists between goods that are used together e.g. tea and sugar such that as demand for one product increases, demand for the other product also increases.

Derived Demand

This is where the demand for one product is triggered by the demand for the other product. For example, demand for hens is derived from the demand for eggs.

Competitive Demand

This is demand existing between close substitutes e.g. tea and coffee. An increase in demand for one product reduces the demand for the other product.

Composite Demand

This is the demand that arises where the product is used for more than one purpose e.g. demand for timber which is required for building, making furniture etc. Therefore a rise in need for one of the purposes, will increase the demand for timber.

DEMAND SCHEDULE AND DEMAND CURVE

DEMAND SCHEDULE

A demand schedule is a table that shows the quantities of goods demanded at a particular time

TYPES OF DEMAND SCHEDULE

Demand schedule can be classified into two:

- Individual demand schedule
- Market demand schedule

Individual demand schedule: This is a table showing the quantities demanded by a single consumer at a particular time.

Illustration: The table below shows the demand schedule of consumer A

PRICE(Ksh)	QUANTITIES DEMANDED(Kgs)
10	40
20	30
30	20
40	10

Market demand schedule: This is a table showing the sum of all the quantities demanded by all consumers at a particular time.

Illustration: The table below shows the demand schedules for consumers A, B and C

PRICE(Ksh)	QUANTITY DEMANDED BY A(Kgs)	QUANTITY DEMANDED BY B	QUANTITY DEMANDED BY C(Kgs)	TOTAL MARKET DEMAND(Kgs)
10	40	40	40	120
20	30	30	30	90
30	20	20	20	60
40	10	10	10	30

DEMAND CURVE: A demand curve is a graphical representation of the information contained in a demand schedule.

NOTE: Mention the law of demand

TYPES OF DEMAND CURVES

INDIVIDUAL DEMAND CURVE

This is a graphical representation of an individual demand schedule.

Assign: Draw the demand curve for the individual demand schedule above

MARKET DEMAND CURVE

This is a graphical representation of a market demand schedule.

Assign: Draw the demand curve for the market demand schedule above

ABNORMAL DEMAND

Refers to a situation where a decrease in the price of the commodity may not result in an increase in the quantity demanded for the commodity and vice versa

(Illustrate)

Reasons for abnormal demand

- a) Goods of ostentation (prestigious goods)
- b) Inferior goods
- c) Giffen goods
- d) Necessities
- e) Habitual goods and services
- f) Expectations of future shortages
- g) Expectations of future increase in price

MOVEMENTS ALONG THE DEMAND CURVE

The demand curve may either contract or extend due to changes in market price. An extension in demand refers to an increase in quantity demanded while a contraction refers to a decrease in quantity demanded. (Illustrate)

SHIFTS IN DEMAND CURVE

Refers to the dislocation of the entire demand curve either to the right or to the left. A shift to the right indicates an increase in demand where as a shift to the left indicates a decrease in demand. (Illustrate)

A shift in demand curve is caused by changes in any other factor affecting demand other than market price.

Causes of a shift to the right (increase in demand)

- A rise in the incomes of consumers
- A rise in the price of the substitute product
- A fall in the price of the complement product
- A positive change in consumers' tastes towards the product
- Favorable government policies e.g. lower taxes
- Increase in consumer incomes
- Increase in population
- Even distribution of income

Causes of a shift to the left (decrease in demand)

- A fall in consumer income
- A fall in price of the substitute product
- A rise in the price of the complement product
- Negative change in consumer preferences
- Uneven income distribution
- Decrease in population
- Decrease in consumer income
- Unfavorable government policies e.g. increase in taxes

***This is a Property of Mwalimu Consultancy Ltd. Contact Mr Isaboke
0746-222-000 for more Educational Materials.***

TOPIC 2: SUPPLY

CONTENTS

- Introduction
- Factors influencing supply
- Types of supply
- Supply schedule and curve

Introduction

Supply refers to the quantity of a product that sellers are able and willing to bring to the market at a particular price over a given period of time

THE LAW OF SUPPLY

The law of supply states that, “with other factors held constant, the higher the market price, the higher the market supply and vice versa”

Assumptions of the law of supply

- a) Suppliers have perfect knowledge of price changes in the market
- b) Suppliers have the ability to offer any quantity of a commodity in the at any given price
- c) Consumers are rational in their consumption behavior
- d) There are no abnormal price fluctuations in the market

FACTORS INFLUENCING SUPPLY

- a) Price of the product
- b) Prices of other related products
- c) Prices of factors of production
- d) State of technology
- e) Goals of the firm
- f) Time
- g) Government policies
- h) Natural factors
- i) Industrial unrest
- j) Entry of new firms
- k) Future expectation of changes in price

Price Of The Product

The higher the market price of a product the higher the market supply. This is due to the fact that sellers will be motivated to make more profits from increased prices.

Prices Of Related Products

Related products can be classified into two:

- Substitutes
- Complements

Substitutes: These are products which compete for the same piece of land e.g. maize and wheat. An increase in the supply of one product causes a decrease in the supply of the other product.

Complements: These are products which undergo the same production process e.g. hide and beef. An increase in supply for one product leads to an increase in supply for the other product.

Prices Of Factors Of Production

Factors of production refer to the inputs to the production process. If these inputs are expensive to acquire, the cost of production will increase hence reducing the quantity supplied in the market.

State Of Technology

With improved technology, production of commodities may increase. Therefore, producers will produce more and market supply will increase.

Goals Of The Firm

Goals set by a firm may also influence what they produce and how much they produce. For instance, a firm may decide to continue producing a particular product irrespective of the risks incurred. In this case supply for the product will increase. On the other hand, if a firm fears taking risks, its production of certain products may reduce.

Time

Supply for some products is seasonal e.g. agricultural products. In this case, their supply will be high during harvesting season. Some products are also supplied more during specific seasons e.g. umbrellas are demanded more during the rainy season.

Government Policies

Government can influence supply through the following methods:

- Subsidies

- Taxation
- Quotas
- Price control

Subsidies: Subsidies are incentives given to producers e.g. free seeds for farmers. Subsidies have the effect of lowering production cost hence increasing supply

Taxation: Taxes have the effect of increasing the cost of production therefore discouraging producers leading to lower market supply.

Quotas: A quota is a restriction on the amount of a product that can be produced. Quotas therefore control the amount of a product thereby reducing its market supply.

Price control: If the government sets a low price for the product, its supply will be lower.

Natural Factors

Refers to factors related to weather and climate. Such factors affect the production of agricultural products. When these factors are favorable, supply will increase and vice versa.

Industrial Unrest

Industrial unrest refers to disagreements between the employers and the employees which in most cases lead to strikes. Industrial unrests hinders production therefore reducing market supply.

Entry Of New Firms

Entry of new firms in the industry will increase market supply. On the other hand, withdrawal of firms from an industry will lead to a reduction in market supply.

Future Expectations Of Changes In Price

If producers expect a future increase in market price, they will hoard their products and sell them later. This will reduce the current supply for the product. But if producers expect a future decrease in price, they will sell more products hence increasing its supply.

TYPES OF SUPPLY

There are two major types of supply:

- Joint supply
- Competitive supply

JOINT SUPPLY

This is supply which exists between products which undergo the same production process e.g. hide and beef. An increase in the supply of one product will cause an increase in supply for the other product and vice versa.

COMPETITIVE SUPPLY

This is a kind of supply which occurs when a factor of production is used to produce two or more products e.g. maize and wheat. An increase in the supply of one product leads to a decrease in supply for the other product.

SUPPLY SCHEDULE AND CURVE

SUPPLY SCHEDULE

A supply schedule is a table which shows the quantities of a commodity that sellers are willing and able to offer for sale at a specific price at a given period of time.

The supply schedule

PRICE(Ksh)	QUANTITY(Kgs)
10	10
20	20
30	30
40	40

SUPPLY CURVE

A supply curve is a graphical representation of the information contained in the supply schedule.
(Illustrate)

MOVEMENT ALONG THE SUPPLY CURVE

Refers to extension or contraction of supply due to changes in market price. When price increases, quantity supplied increases (extension). On the other hand, when price decreases, quantity supplied will decrease (contraction) (**Illustrate**)

SHIFT IN SUPPLY CURVE

Refers to the dislocation of the entire demand curve either to the left or to the right. A shift to the right indicates an increase in supply whereas a shift to the left indicates a decrease in supply (**Illustrate**)

Causes of a shift to the right (increase in supply)

- A fall in price of factors of production
- Improvement in technology
- Favorable government policies
- Entry of new firms in the industry
- Favorable weather conditions
- Industrial peace

Causes of a shift to the left (decrease in supply)

- An increase in the price of competing products
- An increase in the price of relevant factors of production
- Improved technology in the production of a competing product
- Unfavorable weather conditions
- Industrial unrest

***This is a Property of Mwalimu Consultancy Ltd. Contact Mr Isaboke
0746-222-000 for more Educational Materials.***

TOPIC 3: EQUILIBRIUM PRICE AND QUANTITY

CONTENTS

- Introduction
- Excess demand and excess supply
- Effects of shifts in demand and supply curves on equilibrium price and quantity(**Illustrate**)
- Other methods of determining market price other than price mechanism

Introduction

The term equilibrium means equal or balanced. Equilibrium price is the price that equates quantity demanded and quantity supplied. Equilibrium quantity is that quantity that is bought and sold at the equilibrium price. The point at which demand and supply are equal is the equilibrium point. (**Illustrate**)

Excess Demand and Excess Supply

Excess demand is the amount by which the quantity demanded exceeds the quantity supplied at a given price. On the other hand, excess supply is the amount by which the quantity supplied exceeds the quantity demanded.

Excess demand or excess supply will cause disequilibrium in the market (**illustrate**)

Effects Of Shifts in demand And Supply On Equilibrium Price And Quantity

(Illustrate)

OTHER METHODS OF DETERMINING MARKET PRICE

Apart from price mechanism, other methods of determining market price include

- Haggling
- Government intervention
- Auction
- Tendering

Haggling: Refers to bargaining

Government intervention: Refers to a system where prices are influenced by the government through:

- Price control
- Taxation
- subsidies

Auction: A method of selling where buyers are given the opportunity to compete for the product by quoting different prices. The one who quotes the highest price becomes the buyer.

Tendering: A method of selling where buyers are given an opportunity to suggest the selling price independently. The highest bidder becomes the buyer.

TOPIC 4: THEORY OF A FIRM

CONTENTS

- Introduction
- Factors influencing what to produce
- Determining the size of a firm
- Location of a firm
- Localization and delocalization of firms
- Economies and diseconomies of scale
- Existence of small firms in an economy
- Effects of production activities on the environment and community health
- Ensuring a health environment

A FIRM: The term firm refers to a single unit of business organization that brings together factors of production in order to produce a given product e.g. Bata shoe company

AN INDUSTRY: An industry refers to all those firms producing a particular product for a given market.

Types of production decisions made a firm

- a) What to produce
- b) How production is to take place
- c) Where the production plant is to be located
- d) When to produce
- e) What the scale of production will be
- f) When and where to invest
- g) How to improve and control production
- h) What type of business activity to engage in

Factors influencing the decisions made by the firm

- a) Whether the firm is product oriented or market oriented
- b) Level of market competition
- c) Level of technology
- d) Financial viability of the firm
- e) Socio-cultural factors
- f) The level of the country's economy

- g) Government policy
- h) Profitability of the business
- i) Environmental issues
- j) Costs of production

FACTORS INFLUENCING WHAT TO PRODUCE

These are factors considered by a firm before it makes a decision on the kind of goods and services to produce. These factors may include:

Profitability

Businesses tend to produce those goods and services that yield more profit

Level Of Competition

Firms tend to produce those products whose market competition is minimum i.e. those that are scarce in the market

Availability Of Resources

A firm will produce those products whose required resources it has. These resources may include labor, raw materials, equipment etc.

Government Policy

A firm will produce those products which are favored by the government i.e. those which are lowly taxed and legal

Market Demand

Firms will produce products whose demand is high in order to ensure high sales volume

Cost Of Production

A firm will produce those products whose production cost is low.

***This is a Property of Mwalimu Consultancy Ltd. Contact Mr Isaboke
0746-222-000 for more Educational Materials.***

DETERMINING THE SIZE OF A FIRM

Indicators of The Size of a Firm

Number Of Employees

Large firms employ more staff since there several functions to be executed unlike small firms which only require fewer staff

Volume Of Output

Large firms unlike small firms produce more goods and services

Area Covered By Premises

Large firms have several building which covers a lot of space unlike small firms

Amount Of Capital Invested

Firms with high invested capital are considered large firms whereas firms with little capital investment are small firms.

Type Of Production Methods Used

Large firms have the financial capability to afford advanced production methods such as division of labor and specialization unlike small firms

Size Of Market Served

Large firms unlike small firms control a large market

Sales Volume

If a firm presents many goods and services to the market, then it is considered to be a large firm unlike when it presents fewer goods and services to the market

Location Of A Firm

Location of a firm refers to selection of a place where the proposed firm is to be established

FACTORS TO CONSIDER WHEN LOCATING A FIRM

Availability Of Raw Materials

Most firms are located near a source of raw materials. This is because of the need to:

- Lower the cost of transporting raw materials to the firm
- Prevent raw materials from going bad especially when they are perishable
- Minimize the handling costs of raw materials
- Ensure constant supply of raw materials in order to facilitate continuous production
- Counter competition especially when competition for raw materials is high
- Comply with the government policy e.g. when the government requires firms to be located near a source of raw materials

Availability Of Market

It is advisable to locate a firm near a market. This is because of the need to:

- Lower cost of transportation to the market
- Avoid breakages especially where fragile goods are produced
- Prevent perishable goods from going bad

Availability of Labour

Labour intensive firms are located near an abundant labour source e.g. in urban areas

Availability Of Appropriate Transport And Communication Network

Firms are located in area with a good transport network in order to:

- Ensure constant supply of raw materials
- Facilitate easy transportation of finished goods to the market
- Facilitate information flow
- Facilitate easy movement of labour to and from work
- Save on transport cost and frequent repair of vehicles

Availability Of Adequate Power And Water Supply

Water and power are very essential to a firm's operations. Power is required to run the machines whereas water is used as a machine coolant, for cleaning or even as a raw material. Firms should therefore be located in places with adequate supply of water and power.

Government Policies

Government may also influence the location of firms using the following methods:

- Offering free or cheap land
- Reduction of taxes
- Offering subsidies
- Offering financial assistance
- Improving infrastructure
- Providing credit facilities to investors

OTHER FACTORS

1. Availability of auxiliary services such as banking and insurance
2. Availability of room for expansion
3. Effects of a firm's operation on the environment
4. Availability of security
5. Nature of terrain
6. Climatic conditions

LOCALISATION AND DELOCALISATION OF FIRMS

LOCALIZATION OF FIRMS

Localization refers to concentration of similar firms in one particular region.

REASONS FOR LOCALISATION

- A well-developed infrastructure
- Availability of a large population to provide labour and market
- Need for interdependence among firms in areas such as training of personnel
- Government policy requiring firms to be located in a given area
- Availability of raw materials in a given area
- Availability of support industries such as banks

ADVANTAGES OF LOCALISATION

- a) It encourages the establishment of support industries e.g. banking, insurance, warehousing etc.
- b) Encourages the creation of a pool of labour due to rural urban migration
- c) Establishment of firms that use finished goods as raw materials are encouraged
- d) Disposal of waste products is made easier since it can be sold to other firms or recycled
- e) Creation of employment opportunities is encouraged
- f) Encourages the development of infrastructure such as roads, communication, health and education facilities

DISADVANTAGES OF LOCALISATION

- a) May cause environmental pollution from industry emissions
- b) Results in regional imbalance in development
- c) Encourages rural-urban migration leading to overcrowding in towns
- d) Emergency of social problems such crimes, diseases, immorality etc.
- e) May attract terrorist attacks since terrorists mostly target congested areas
- f) A fall in the of the product produced by a localized firm may spark widespread unemployment

DELOCALISATION OF FIRMS

Refers to establishment of firms in different parts of the country. It is highly encouraged by the government

ADVANTAGES OF DELOCALISATION

- a) Reduces effects of terrorist attacks
- b) Provides employment opportunities to every part of the country
- c) Reduces rural-urban migration
- d) Ensures balanced regional development
- e) Widens market for local produce
- f) Makes products easily available to local consumers

DISADVANTAGES OF DELOCALISATION

- a) Spreads pollution all over the country
- b) Lack of skilled manpower in the rural areas
- c) There may be insecurity in some areas
- d) Service industries may not be available in the rural areas
- e) Incentives offered by the government to encourage delocalization may burden the taxpayer
- f) Continued protection of local firms from competition from foreign firms by the government may make local firms produce poor quality goods.

Disadvantages of locating a business away from other businesses

- a) Difficulty in acquiring relevant labour
- b) Exchange of ideas is not easy
- c) Difficulty in acquiring raw materials
- d) The firm may produce poor quality goods due to lack of competition
- e) Exchange of technology is not possible

Objectives of delocalization

- a) To promote a balance regional development
- b) To redistribute income by ensuring that there is a widespread location of industries
- c) To ensure better use of resources in different parts of the country
- d) To create employment in various regions
- e) To reduce congestion in urban centres

Methods used to delocalize industries

- a) Offering cheap land
- b) Offering tax concessions
- c) Provision of infrastructure
- d) Establishment of rules and regulations
- e) Development of training institutions in different regions
- f) Government directives

ECONOMIES AND DISECONOMIES OF SCALE

ECONOMIES OF SCALE

Refers to advantages a firm enjoys as a result of expansion.

There are two economies of scale:

- Internal economies of scale
- External economies of scale

INTERNAL ECONOMIES OF SCALE

These are advantages accruing to a single firm as a result of its expansion irrespective of what happens in other firms. These economies may include:

- ***Marketing economies***

As the firm expands, it buys and sells goods in large quantities thus enjoying the following:

- Trade discounts
- Lower transport cost
- Lower cost of advertising
- Lower distribution cost

- ***Financial economies***

As a firm expands its scale of operations, it is in a position of accessing loans easily and in large amount from financial institutions.

- ***Risk bearing economies***

Large firms are able to reduce risks though selling many products in several markets such if one product fails or demand in one market declines, the firm can still make profit.

- ***Managerial economies***

As the firm expands, it is in a position of employing qualified staff. These staff can go a long way in increasing the efficiency and productivity of the firm.

- ***Technical economies***

Technical economies are those benefits associated with specialization of both labour and machinery. A large scale firm is able to hire qualified staff and buy modern machines to improve its productivity.

- ***Research economies***

Research is a very expensive exercise and it can only be afforded by large firms

- ***Welfare economies***

Welfare facilities are those things which motivate workers. Such things may include: recreation, health, education etc. These facilities are expensive and can only be afforded by large firms.

EXTERNAL ECONOMIES OF SCALE

These are those benefits which accrue to a firm as a result of growth in the entire industry. These benefits include:

- Availability of ready skilled labour
- Ready market
- Easy disposal mechanisms
- Improved infrastructure

Ways in which large-scale businesses reduce their cost of operations

- a) Buying goods in bulk from suppliers hence enjoying quantity discounts
- b) Promoting their products hence increasing sales
- c) Bargaining for lower interest rates on loans
- d) Diversifying products and markets hence spreading risks

- e) Attracting skilled manpower hence lowering supervisory costs, wastes and losses so as to improve efficiency
- f) Using modern technology hence ensuring efficient production
- g) Producing and selling in large quantities thereby reducing average costs
- h) Carrying out research hence improving methods of production

DISECONOMIES OF SCALE

These are those problems a firm experiences as a result of expansion. They may be classified into two.

- Internal diseconomies of scale
- External diseconomies of scale

INTERNAL DISECONOMIES OF SCALE

Refers to those problems which arise from within the firm as it expands. They include:

- **Managerial diseconomies**

Continued expansion of a firm may pose problems associated with poor control and coordination, long decision making and poor relations between staff and management

- **High operational costs**

As the firm expands, money required for the day to day running of the firm will increase. This is likely to lower the profits of the firm.

EXTERNAL DISECONOMIES OF SCALE

These are problems a firm experiences as a result of growth in the entire industry. They include:

- Struggle for raw materials
- Lack of land for expansion
- Scramble for qualified labour
- Market competition
- Easy target for terrorist activities

Ways of expanding a business

- a) Entering into a suitable merger or amalgamation
- b) Diversifying operations/ dealing in a variety of products so as to capture a wider market
- c) Buying/acquiring other similar businesses so as to widen the scope of operations
- d) Securing loans to expand the capital base
- e) Arranging for franchising by acquiring rights to produce/sell goods under the name of another firm
- f) Expanding market to increase the volume of sales
- g) Adopting appropriate technology to increase the quantity and quality of output
- h) Ploughing back profits to finance its operations
- i) Forming cartels with similar businesses

EXISTENCE OF SMALL FIRMS IN AN ECONOMY

Despite the benefits enjoyed by large firms, small firms still exist alongside large firms. Some of the reasons for this existence may include:

- **Size and nature of market**

In cases where the market size is small, small firms will prevail since it will be uneconomical for large firms to operate in such markets. Consumers in some markets may demand goods in small quantities, in such cases small firms will be preferred.

- **Nature of the product**

Some products cannot be provided in large quantities e.g. personal services such as nursing or painting. These products can only be provided by a small firm.

- **Simplicity in organization and operation**

Small firms may also exist due to the fact that they are easy to operate as compared with big firms

- **Flexibility**

Compared with large firms, small firms are easily adaptable to changes in the environment. For example it is easy for a small scale firm to switch from one line of trade to another unlike a large. Small firms will therefore exist in an economy due to the fact that they highly flexible.

- **Quick decision making**

Most people go for small firms because it is easier to make decisions in these firms given that few people are to be consulted when making a decision

- **Simplicity in management**

Most businessmen may opt for small firms due to the belief that they are easy to run as compared to big firms

- **Lower costs of production**

Small firms unlike large firms enjoy lower operational costs

- **Desire to retain control**

The need to exercise control and be the own boss may drive business people towards operating in small scale

- **Legal constraints**

Measures put in place by the government may also hinder the growth of firms e.g. the government may impose a higher tax if sales exceed a given limit, in this case, the firm will rather remain small.

Disadvantages of small firms

- a) High overhead costs due to low output
- b) It is difficult for small firms to diversify
- c) Low profits due to limited capital
- d) Overworking due to lack of division of labour

Role of small firms in developing countries

- a) They create employment since they mostly use labour intensive techniques
- b) They allow more low income earners to participate in economic activities
- c) They promote delocalization of industries
- d) They lend valuable support to large industries

Implication of Production Activities On Environmental And Community Health

As production activities take place in a given area, environment and the health of people around may be adversely affected. Some these effects may include:

- a) Affects the health of the people and animals due to pollution of water, air and soil
- b) Disrupts the ecosystem of the area as animals and plants may have to be moved or destroyed
- c) Leads to excessive use of resources resulting in land degradation and reduction in the productivity of land
- d) Depletion of the environment especially the ozone layer through toxic emissions from industries

- e) Causes negative social effects such as crimes in areas where production activities take place due to high population in those areas

MAINTAINING A HEALTHY ENVIRONMENT

NOTE!

This is a Sample of the Well Organized Detailed Simplified Notes Available.

Call/Text/WhatsApp 0746-222-000 for the Complete Notes.

FOR THE FOLLOWING;

- ✓ **ONLINE TUITION**
- ✓ **REVISION NOTES**
- ✓ **SCHEMES OF WORK**
- ✓ **SETBOOKS VIDEOS**
- ✓ **TERMLY EXAMS**
- ✓ **QUICK REVISION KITS**
- ✓ **KCSE TOPICALS**
- ✓ **KCSE PREMOCKS**
- ✓ **TOP SCHOOLS PREMOCKS**
- ✓ **JOINT PREMOCKS**
- ✓ **KCSE MOCKS**
- ✓ **TOP SCHOOLS MOCKS**
- ✓ **JOINT MOCKS**
- ✓ **KCSE POSTMOCKS**
- ✓ **TOP SCHOOLS PREDICTIONS**
- ✓ **KCSE PREDICTIONS**
- ✓ **KCSE REVEALED SETS**

CALL/TEXT 0746 222 000

[*mwalimuconsultancy@gmail.com*](mailto:mwalimuconsultancy@gmail.com)

**THIS IS A PROPERTY OF MWALIMU
CONSULTANCY LTD.**

**POWERED BY MR
ISABOKE**

SUCCESS