# Grade 10 Business Studies

**CBC NOTES | Terms 1, 2 and 3 - notes for 15 topics**

## IN EVERY TOPIC

- What you will learn, the key words and key terms explained.
- Clear notes under headings and subheadings, with labelled pictures and step-by-step procedures.
- Comparison tables, and advantages and disadvantages where methods are compared.
- Key points to remember, then structured questions to practise.
- All the answers and a glossary at the back.

## TOPICS IN THESE NOTES


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Strand 1.0 Business and Money Management | Term 1

# 1.1 Money

## WHAT YOU WILL LEARN

By the end of this topic you should be able to:

- identify the key security features of the Kenyan currency
- describe the functions of money when carrying out financial transactions
- justify the demand for money for achieving economic development
- examine the factors that determine supply of money in an economy
- evaluate ethical practices on the use of money in financial transactions
- acknowledge the role of money in day-to-day life

## KEY WORDS

barter, money, legal tender, currency, medium of exchange, store of value, demand for money, supply of money, counterfeit, Central Bank of Kenya.

*Every day we pay fares, buy bread, send money by phone and save for school trips. All of these use money. In this topic we learn how money replaced barter, how to recognise genuine Kenyan currency by its security features, the functions money performs, why people and businesses demand (hold) money, what decides the supply of money in Kenya, and which uses of money are ethical and which are not.*

## 1. From barter to money

> **Barter**
> The direct exchange of goods and services for other goods and services without using money.

> **Money**
> Anything that is generally accepted as payment for goods and services and in settling debts.

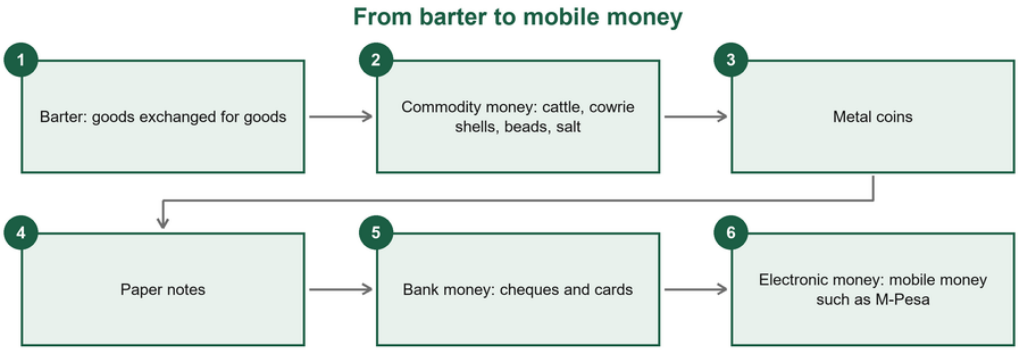
Before money, people exchanged goods directly: a bag of maize for a pair of shoes, or a goat for several chickens. Barter is still seen today, for example when a neighbour repairs a fence in return for vegetables, but it has serious problems.

### Problems of barter and how money solves them

**Barter compared with money**

| Problem of barter | How money solves it |
|---|---|
| **Double coincidence of wants: each person must want what the other has** | Everyone accepts money, so a seller can sell to anyone and buy from anyone |
| **No common measure of value** | Every good has a price in one unit (shillings), so values are easy to compare |
| **Some goods cannot be divided (half a goat is of little use)** | Money can be divided into small amounts, down to KSh 1 |
| **Goods spoil and are hard to store or carry** | Money is light, easy to carry and does not rot |
| **No easy way to pay later** | Debts can be stated and paid in money at a future date |

Example: if one goat is worth 4 bags of maize and also 8 chickens, then one bag of maize is worth 2 chickens. With money, each item simply has a price in shillings and no such working is needed.




*Forms money has taken over time, from commodity money to mobile money*

Mobile money (such as M-Pesa) is a form of money: it is accepted as payment, can be transferred by phone and measures value in shillings, even though it is not a coin or a note.

## 2. Kenyan currency and its security features

**Currency**
The notes and coins used as money in a country. Kenya's currency is the Kenya shilling (KSh).

**Legal tender**
Money that the law says must be accepted in payment of debts in Kenya (coins within the limits set by law).

**Counterfeit**
A fake note or coin made to look like genuine money. Making or knowingly using it is a crime.

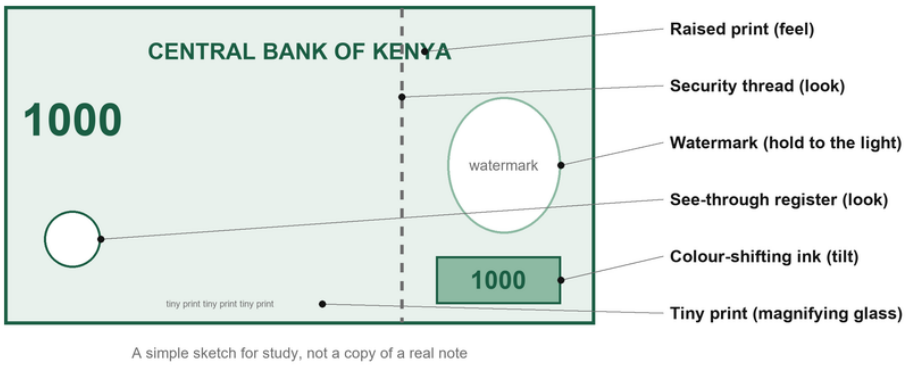
The Central Bank of Kenya (CBK) is the only institution allowed to issue Kenyan notes and coins. Kenya's notes are KSh 50, 100, 200, 500 and 1,000 and the coins are KSh 1, 5, 10, 20 and 40. Worn or damaged notes are withdrawn and replaced by the CBK.

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### Qualities of good money

- Acceptable: everyone takes it in payment.
- Durable: it lasts a long time under handling.
- Portable: it is light and easy to carry.
- Divisible: a KSh 500 note can be changed into 5 notes of KSh 100 (5 × 100 = 500) or 10 notes of KSh 50.
- Uniform (homogeneous): every unit of the same kind is equal.
- Scarce (limited in supply): so that it keeps its value.
- Difficult to copy: it has security features.

### How to check a note




A simple sketch for study, not a copy of a real note

**Look - feel - tilt - ultraviolet lamp - magnifying glass**

*Checking a Kenyan note: look, feel, tilt, use a lamp and use a magnifier*

**Security features of Kenyan notes and how to check them**

| Check | What to look for on a genuine note |
|---|---|
| **Look (hold to the light)** | The watermark and the see-through register, where designs on the two sides line up |
| **Feel** | Raised (rough) print and the special crisp paper |
| **Tilt** | Colour-shifting ink and other features that change as the note moves |
| **Ultraviolet lamp** | Features that glow under the lamp |
| **Magnifying glass** | Very small print that is sharp on a real note and blurred on a copy |

### Themes on Kenyan money

Kenyan money carries national symbols, the value in words and figures, the name of the Central Bank of Kenya, and pictures and themes that reflect the country's heritage, such as wildlife, agriculture, industry and national unity.

**REMEMBER**

If you suspect a note is fake, do not pass it on. Report it to the police or a bank. Handle all notes gently: folding, writing on or stapling notes shortens their life.

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## 3. Functions of money

Money is useful because of the jobs (functions) it does in financial transactions.

**Five functions of money**

| Medium of exchange | Unit of account | Store of value | Deferred payment | Transfer of value |
|---|---|---|---|---|
| Paying KSh 130 for a kilogram of rice | Comparing prices: a KSh 800 shirt and KSh 1,200 trousers | Saving KSh 5,000 to restock next month | Repaying a KSh 20,000 loan in four instalments | Sending school fees by mobile money |

*The five functions of money, each with an everyday example*

**Functions of money**

| Function | Meaning | Example |
|---|---|---|
| **Medium of exchange** | Money is accepted in return for goods and services, so no double coincidence of wants is needed | A customer pays KSh 130 for a kilogram of rice |
| **Unit of account (measure of value)** | Money gives every good a price so that values can be compared and recorded | A shirt costs KSh 800 and trousers KSh 1,200; the trousers cost 1,200 - 800 = KSh 400 more |
| **Store of value** | Money can be kept and used later | A trader keeps KSh 5,000 in a savings account to restock at the end of the month |
| **Standard of deferred payment** | Money is used to settle debts that fall due in future | A loan of KSh 20,000 repaid in four instalments of 20,000 ÷ 4 = KSh 5,000 |
| **Transfer of value** | Money moves wealth from one person or place to another quickly and safely | A parent sends school fees by mobile money |

**WATCH OUT**

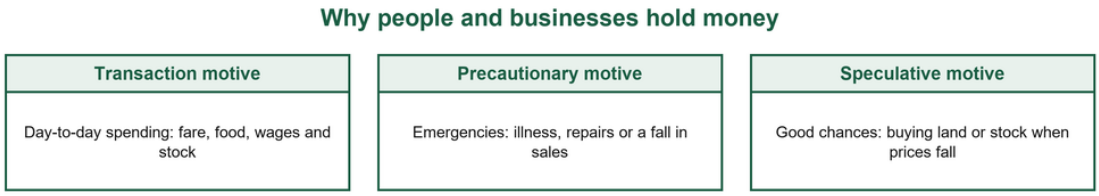
Money is a weaker store of value when prices rise (inflation): the same KSh 1,000 buys less than before.

## 4. Demand for money

**Demand for money**

The desire of people and businesses to hold their wealth as money (cash or bank and mobile money balances) rather than in other forms such as land or goods.

### Why people and businesses hold money (motives)




*The three motives for holding money*

**Motives for holding money**

| Motive | Meaning | Example |
|---|---|---|
| **Transaction motive** | Money held to pay for day-to-day purchases and bills | Fare, food, wages and stock |
| **Precautionary motive** | Money held for emergencies and unexpected costs | A trader keeps KSh 10,000 in case the fridge breaks down |
| **Speculative motive** | Money held to take advantage of a good chance | A farmer keeps money to buy seed when its price falls |

When incomes rise, people demand more money for spending. When interest rates on savings are high, people prefer to keep money in interest-earning accounts instead of as cash.

### How the demand for money supports economic development

- Money lets trade take place everywhere, so producers can specialise and sell to a wide market.
- Money that is saved in banks is lent to others to start or expand businesses.
- Workers paid in money buy goods, which keeps other businesses running and creates jobs.
- Taxes paid from money incomes fund roads, schools and hospitals.

**Case study: Wanjiru's stall**

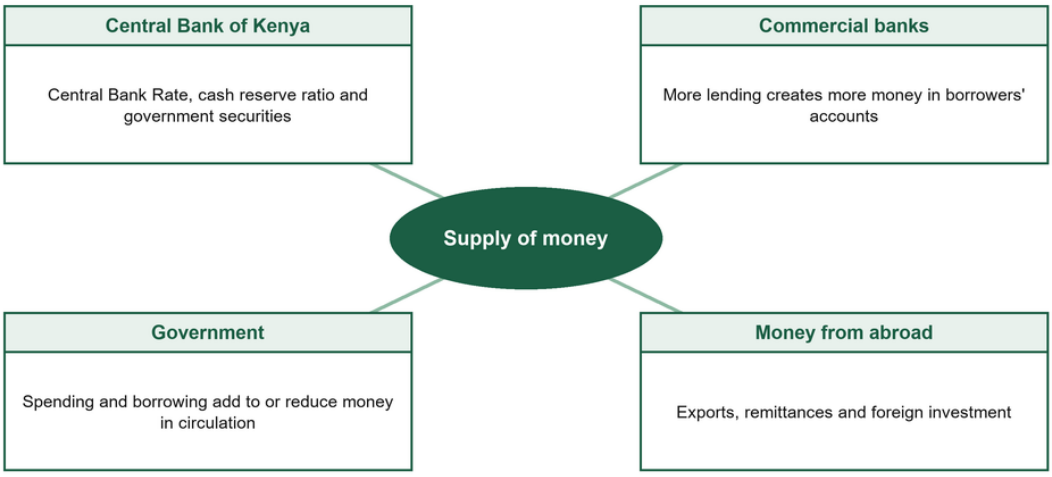
Wanjiru runs a vegetable stall and a small shop. Customers pay her in cash and mobile money.
She uses the money to buy stock from farmers, pay a helper and pay the market fee (transaction motive).
She keeps KSh 3,000 in a savings account for emergencies and to expand next year (precautionary and speculative motives).
The farmers use the money she pays them to buy seed and school uniforms, so her demand for money supports other people's incomes too.

## 5. Supply of money

**Supply of money**

The total amount of money in an economy at a given time: notes and coins in circulation plus money in bank and mobile money accounts.

### Factors that determine the supply of money




*Factors that determine the supply of money in Kenya*

- Monetary policy of the Central Bank of Kenya: its lending rate (the Central Bank Rate), the cash reserve ratio banks must keep, and buying or selling government securities.
- Lending by commercial banks: when banks lend more, more money is created in borrowers' accounts.
- Government spending and borrowing.
- Money from abroad: exports, remittances from Kenyans abroad and foreign investment.
- Public confidence: when people trust banks and deposit money, banks can lend more.

### Why the right supply matters

Too much money chasing too few goods pushes prices up (inflation). Too little money slows spending, production and jobs. The Central Bank of Kenya tries to keep the supply suited to the needs of the economy.

## 6. Ethical and unethical practices in the use of money

**Ethical and unethical uses of money**

| Ethical practices | Unethical practices |
|---|---|
| **Giving and receiving correct change** | Cheating customers on change, weights or prices |
| **Paying debts and wages on time** | Delaying wages; taking loans with no plan to repay |
| **Using money for the purpose it was given for** | Embezzlement: stealing or misusing funds in one's care |
| **Paying taxes and keeping receipts** | Tax evasion; bribery |
| **Being open about charges** | Fraud and scams, including mobile-money and online scams |
| **Giving to worthy causes** | Using counterfeit money; money laundering |

### Effects

Unethical practices destroy trust, cause loss of income and jobs, lead to court cases and the closure of businesses, and slow development. Ethical practice builds a good name, loyal customers and easier access to credit.

> **A club treasurer**
> The treasurer of a school club uses the club's money to buy airtime.
> This is misuse of funds: the money was given for club activities.
> The money should be returned, the matter reported to the patron, and proper records kept from now on.

### The role of money in day-to-day life

Money helps us pay school fees, run businesses, save for future needs and help others. Good habits for a young person: keep a record of what you receive and spend, separate needs from wants, save a fixed part of any income, and never take part in dishonest ways of getting money.

**KEY POINTS TO REMEMBER**

- Barter is the direct exchange of goods; it fails because of the double coincidence of wants, no common measure of value and goods that cannot be divided or stored.
- The Central Bank of Kenya issues Kenya's notes and coins; genuine notes are checked by look, feel and tilt, and with a lamp or magnifier.
- Money is a medium of exchange, a unit of account, a store of value, a standard of deferred payment and a means of transferring value.
- People demand money for transaction, precautionary and speculative motives.
- The supply of money depends on the Central Bank, bank lending, government spending, money from abroad and public confidence.
- Honest use of money builds trust; fraud, bribery, embezzlement and counterfeit money harm people and the economy.