# ECONOMICS

## FINANCIAL INSTITUTION

The financial institution or system refers to organizations and the arrangements concerned with lending, borrowing, investing and managing money or funds.

**TYPES OF FINANCIAL INSTITUTIONS**

(1). Traditional financial institution

(2). Modern financial institution

**Traditional financial institutions:** are institutions that exist before the institutions of the modern financial system.

*Examples*

Esusu

Money lending

**Esusu** is an arrangement in which group of people agree to make a specified regular contributions of an amount of money either on daily basis, monthly or weekly periods.

***Money lending:*** This is carried out by a money lender who has loanable fund which he loans out with varying interest charges depending on the degree of needs.

**ADVANTAGES OF TRADITIONAL FINANCIAL SYSTEM**

These traditional financial institutions where major sources of loanable funds for various pressing needs of the people.

Likewise, they encouraged the savings habit and the provisions of loan disbursed.

**DISADVANTAGES**

The interest rate is fixed by money lender.

Sometimes, it is difficult to find money lenders.

No protection exists against loss of money contributed into Esusu .

**MODERN FINANCIAL INSTITUTIONS**

This types of institution are concerned with the operations of bank.

Examples: Central banks, commercial banks, merchant banks etc.

**CAPITAL MARKET**

Capital market is a medium whereby medium-term and long-term loans are sold and bought.

Shares, debentures and bonds are some of the long and medium term securities being traded on the capital market.

**AGENCIES INVOLVED IN THE CAPITAL MARKET**

Central Bank

Securities

Stock-broking firms

Insurance company

Development bank

Savings banks.

**THE MONEY MARKET**

The money market is an arrangement for the exchange of short-term securities.

The money market is used by institutions or individuals who wish to borrow on a short basis or have money to lend to the financial system on a short term basis.

## Instruments or Tool Used in the money market.

Bills of exchange
Call Money funds
Treasury Bills

## Agencies Involved in the Money Market

Central valley bank
Commercial bank
Acceptance Houses
Financial Houses
Discount Houses
Insurance Companies.

# MONEY

Money is defined as something that is widely used and generally accepted by members of a community as a medium of exchange.

## Types of Money

Commodity money: this is when commodity such as yam, cowries Shell or salt is generally accepted as the means payment and exchange.

Gold and silver commodity money but of a different type.

Metal coins: these are metal materials which have been coined to represent the value of a debt.

Currency

Bank deposit

## Characteristics of money

Generally acceptability anything that serves as a good money must be generally acceptable.

Durability; Money must be durable, unlike trade by bartter most goods use were not durable.

Divisibility: A good money must be cable of being divided into smaller unit.

Portability

Scarcity

Valuable

Homogeneity: This means that #1 in Lagos must be #1 in Kano or Aba.

## Functions of Money

Medium of exchange: It is used as the linkage between buyers and sellers.

Measure of value it is the means by which people compare the value of two or more items.

Store of value money is usually used as a store of value ₦1 today will be ₦1 in the future.

Standard of the deferred payment: It means that money is used in the settlement of debt.

Unit of Account: when trade occurs proper accountability is needed, and the base for keeping a proper account is money.

### Historical Development of Money

The historical development of money could be traced to the need for specialisation and therefore, needs for exchange. This development therefore necessitated the exchange of goods and services. The farmer wants cloth the weaver wants fish the Fisherman wants food and so on. This process of using goods to pay for goods is called trade by barter.

Sometimes in Egypt and other parts of Northern Africa, salt was used as a medium of exchange, while cowrie shells were sometimes used in West Africa. Certain drawbacks also resulted.

In the 18th century, the Goldsmith developed a profitable technique of holding gold and silver. They discovered that not all notes backed by gold were paid out. Bank notes were introduced to West African by the British banking administration**.**

### Advantages of Using Money.

It facilitates exchange: Money has brought about the expansion in trade and exchange. Exchange could now be carried out with relative ease.

It improves specialisation: Money has brought about increase in specialisation and division of labour as the basic medium of exchange has been standardized.

Improved Savings: The recognition of the fact that you could keep ₦1 today and it will still be ₦1 tomorrow has brought about the increase in savings for future expenditure.

## Problems of Trade by Barter

As mentioned earlier this system of payment was not a very convenient one. Certain problems which constituted it disadvantages emerged.

Problems of double coincidence of want: Under trade by barter you don't only find who has what you want but also he who wants what you have.

Bulkiness and weight of item used: It was difficult to carry or transport some item used and therefore exchange was hindered.

Problem of divisibility.

Fixing commodity values.

## CHANNELS OF DISTRIBUTION

In the distribution of goods there are various channels a manufacturer or producer of commodities can adopt. Channels of distribution are various ways in which goods produced by the manufacturer / producers moved from wholesaler ----- retailer ---- consumer of the product.

### Process of Distribution

The main channels of distributions include the following:

(i) From the manufacturer / producer to the final consumer this is often the case with producer of services.

*Producer ------ consumer.*

(ii) From the manufacturer / producer and to the retailer and then to the consumer. Producer----

*Retailer-----Consumer.*

From the manufacturer / producers to the wholesalers, and from the Wholesaler to the retailer and then to final consumers.

*Manufacturer / producers ----- wholesalers-----Retailers-----consumers.*

## ROLES OF WHOLESALERS, RETAILERS AND COOPERATIVES

### Roles of Wholesalers

The Wholesaler act as a link between the producers and the retailer or at times the consumer.

Warehousing
Financing production
Marketing the products
Preparing the product for sale.

### Roles of Retailer

Regular supply of variety of product

- Market information
- Other services.

### Roles of Government Agencies in Product Distribution.

Government has on many occasions taken part in the distribution of commodities in the country.

Government participation in distribution is done through the following ways:

Establishment of the Nigerian National Supply Company Limited (NNSC This company was established to import and distribute various commodities particularly rice sugar, Milk, tyres etc.

Efforts of state government

Bulk purchase organizations

Ministries of trade and Commerce.

## Problems of Distribution in Nigeria

Distributions of both imported and locally-made products faces some problems in Nigeria.

Poor Road network: It is difficult to transport goods to rural areas and transporting other Commodities by air transport will make them more expensive.

- There are too many middlemen: This chain of sub-distributors creates problems for the final consumers.
- The problem of Hoarding.

Inadequate supply: Many manufacturers are producing below capacity, the available goods cannot go round the consumers and prices increase.

(v) Problems of Distributors.