

Subject : Business studies

Topic : Concept of Credit

Class : JSS1A

Week : week 3

Learning Objectives :

1. Define Credit
2. Explain the origin of credit
3. Types and Sources of credit
4. Give reasons of taking credit
5. Benefits of taking credit

Definition of Credit : Credit is an arrangement of buying of goods or services with the expectation of paying in future. Credit is also an agreement reached between two or more people based on trust in which goods and services are exchanged for money in future.

Origin of Credit : Credit originated long time ago, as individuals have always collected household items and borrowed money to be paid later. As at 19th Century, instalment plans were made available by sellers to buyers in order to motivate buyers from buying more, especially for high cost goods such as furniture, machinery, building etc. Few financial institutions in 19th and early 20th centuries were will to to extend consumer credit because of lack of information about the persons who needed the credit. Presently consumer credit is on increase as majority of sellers are readily interested to offer it to their customers as so many consumer goods are produced. In Nigeria, consumer credit began with the establishment of multi-national companies like United African Company (UAC), PZ, Kingsway and Leventis which established trading companies and sell for credit to their customers.

Types of Credit :

1. Trade Credit
2. Consumer Credit

Trade Credit : This is also called commercial trade. It refers to the credit extended to a business person by a supplier. Buyers whose finance are not stable those who don't pay back does not enjoy this.

Consumer credit : This kind of credit is the credit provided by banks and other financial institutions to consumers to enable them buy goods.

Sources of credit : These are the areas or places by which we go in search of money examples

1. Commercial banks
2. Microfinance/savings and loans banks
3. Cooperative societies (Credit unions)
4. Consumer finance companies
5. Sales finance companies
6. Insurance companies
7. Pawn brokers
8. Loan sharks
9. Family and friends

Reasons for taking credit : There are several reasons why people take credit examples

1. To start or develop business
2. For expansion of business
3. To have enough money to acquire an item that one's salary cannot easily afford: e.g. car, building furniture etc.
4. To pay school fees for children and wards.
5. To pay medical bills.
6. To meet an emergency.

Benefits of taking credit :

1. It improves the amount of one's income
2. It is easier since we don't need to carry a lot of money
3. It helps to provide money for emergencies like illnesses, death or property loss.
4. It allows one to buy things that are needed even when one doesn't have enough to pay.

Assignments :

1. Explain two types of credit
2. List five (5) sources of credit and explain three (3)