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MARKING GUIDE
ECONOMICS
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SECTION A (20 MARKS)

1.

a) i) Rescale price maintenance is a system by which by which the products should be sold up to the final consumer. (01 mk)

ii) Any three merits of rescale price maintenance:-

1. Reduces competition between small scale and large scale retailers.
2. It is non- inflationary i.e. there is no effects of increasing price.
3. It protects consumers from being over charged / exploited by the sellers.
4. It increases the sales/ profits of a producer.
5. Maintains the market for the producer.
6.
7.
8.
9.
10.

Any 3x1 = 3mks

b) i) The marginal property + consume (mpc)

$= \frac{\text{Charge in consumption}}{\text{Change in income}}$ OR $mpc = \frac{DC}{DY}$ ½mark

$= \frac{102.6 - 88.2}{80 - 60}$ ½mark

$= \frac{14.4}{20}$ ½mark

$= 0.72$ ½mark

(02mks)

ii) Size of the Multiplier (K)

$= \frac{1}{1 - MPC}$ ½mark

$= \frac{1}{1 - 0.72}$ ½mark

$= \frac{1}{0.28}$ ½mark

$= 3.57$ times ½mark

c) i) Credit creation is the process through which commercial banks create more credit out of initial amount of money deposited. 01mark

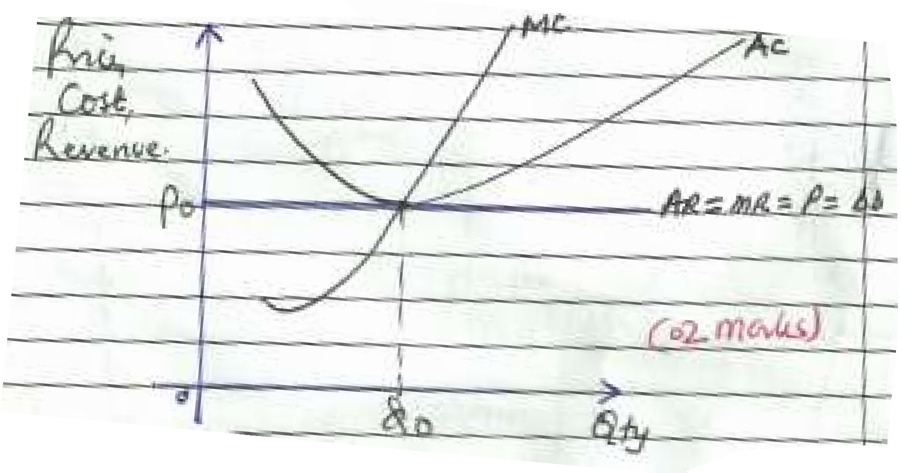
ii) Limitation of credit creation. –

1. Lack of collateral security.
2. Few credit worthy borrowers.
3. High cash ratio.
4. High interest rate on loans.
5. Corruption by bank officials.
6. High liquidity preference.
7. Unpopularity of loans.
8. Poor distribution of commercial banks.
9. Low income level of their population.
10. Restrictive Monetary policy by the central bank / government.
11. Low level of investment.
12.
13.
14.
15.

Any 3x1= 03mks

d) Normal profits under perfect competition is determined at equilibrium position where MC = MR = AR= AC= P. (02marks)

The above equilibrium position is illustrated as below;



4. To supplement tax revenue.
5. To control inflation by reducing amount of money in the hands of the people.
6. To help repay interest and even the principal sums borrowed.
7. To achieve and maintain a given level of employment.
8. To fill the savings – investment gap/ development expenditure.
9. To sustain market by leaving citizens with adequate disposable income.
10. To handle the effects of calamities/ disasters.
11.
12.

13.

Any 2x1= 02marks

e)

i) Barter terms of trade is the ration of price of exports is price index of imports.
01marks

While / where as

Income terms of trade is the ration of the value of the countries exports + the priceindex of imports.

ii) Measures of importing a country's terms of trade include:- 01mk

1. Diversification of export markets
2. Processing primary exports.
3. Undertake import substitution strategy.
4. Negotiation for the removal of trade barriers in the export market.
5. Diversification of exports.
6. Encourages importation from cheap sources.
7. Strengthening commodity agreements
8. Improving quality of exports.
9. stabilization of foreign exchange rate
10. By the monetary authority.
11.
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Any 2x1= 02mks.

SECTION B (80 MARKS)

2. (a)

Income elasticity of demand is the measure of degree of responsiveness of quantity demanded of a commodity due to changes in consumers' income.
02marks

Where as / While

Price elasticity of demand refers to the measure of degree of responsiveness of quantity demanded of a commodity due to change, in price of the commodity.
02marks

(b) Causes of low price elasticity of demand in an economy.

1. Limited / no substitutes for the commodity.
2. High income of a consumer.
3. Low price of a commodity.
4. Small partition of consumer.
5. Spent on a commodity.
6. Consumption of necessities
7. Favourable seasons.

8. High level of convenience involved in assessing a commodity.
9. High level of advertisement of the commodity.
10. Limited possibility of post ponement of consumption.
11. Many numbers of uses of a commodity.
12. The commodity being durable.
13. Short run situations.
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Any 8 X 2= 16mks

3 (a)

Causes of income in developing countries include:-

1. Difference in the level of education and skills.
2. Difference in natural resource distribution
3. Difference in natural abilities and talents.
4. Difference in experience / seniority.
5. Discrimination in labour market according to sex and age.
6. Difference in accessibility to development infrastructures both social and economic.
7. Difference in the nature of jobs / occupation risks.
8. Difference in bargaining strength of individual workers.
9. Difference in costs of living.
10. Difference in the strength in the trade unions.
11. Difference in political climate.
12. Difference in family / social background.
13. Difference in the number of hours worked for.
14. Political influence as regards the distribution and allocation of resources
15. Variation in employee's ability to pay.
16. Difference in the quality of out put produced.
17. Difference in access to credit and business contracts.
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Any 10x1= 10mks.

(b)

Measures to reduce income include:-

1. Extending credit to the poor
2. Controlling population growth rate
3. Undertaking education reforms.
4. Improving infrastructure.
5. Reforming on the land tenure system

6. Use of progressive taxation.
7. Liberalization of the low income groups.
8. Raising wages of low income groups.
9. Modernisation of agriculture.
10. Improving of the investment climate e.g. subsides.
11. Diversification of the economy.
12. Empowering the disadvantaged groups in the country.
13. Decentralization of the government.
14. Improving the political climate / ensuring political stability.
15. Increasing government disadvantaged regions through subsidify the poor.
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Any 10x1= 10marks.

4. (a)

Inward looking (import substitution strategy) of industrial development refers to a strategy of establishing industries internally to produce goods formerly imported.

02marks

While / where as

Outward looking strategy (Export promotion strategy of industrial development refers to a strategy of promoting domestic manufacturing sector with the aim of increasing goods for export.)

04marks

(b)

Positive implications of inward looking strategy:

1. It helps to save scarce foreign exchange.
2. Reduces the level of foreign dependence / promotes self reliance.
3. Facilitates the diversification of local skills.
4. Improve the balance of payment position of the country.
5. More domestic resources are exploited / increase GDP.
6. Reach to expansion of the manufacturing sector / promotes industrialization.
7. Enlarge employment opportunities.
8. Facilitates transfer of technology / technological development.
9. It increases incomes of individuals of infrastructure.
10. Facilitates in flow of foreign capital.
11. Facilitates growth and development of infrastructure.
12. Facilitates inflow of foreign capital.
13. Helps in earning foreign exchange through exports - the long run.
14. It controls imported inflation.
15. It creates linkages in the economy.
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Any 8x1= 08marks.

Negative implications of inward looking of industrial development include:-

1. Capital outflow through importation of intermediate factor inputs / worse ns Bop problems:
2. High domestic prices due to high production costs.
3. Citizens usually subject to low quality products due to protectionism.
4. Encourages use of capital intensive techniques which results into unemployment.
5. Tends to concentrate in production of consumer goods.
6. Limited variety of goods in the market.
7. Monopoly tendencies are promoted.
8. Production at excess capacity due to limited market.
9. Usually owned / manned by foreigners leading to profit repatriation.
10. Problem of our protectionism which may lead to retaliation / beggar my neighbour.
11. Management contracts are usually expensive.
12. Reach to rural – urban migration and related effects.
13. Social costs such as pollution.
14. Fall in government revenue due to decline in import duty in the short run.
15. Increase government expenditure on subsidies.
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Any 8x1= 08mks.

5. (a) The following are the reasons why a low rate of inflation may be desirable in an economy;
    1. When it promotes economic growth.
    2. When it stimulates inventions and innovations / hard work.
    3. Incase it helps to reduce (voluntary) unemployment.
    4. Incase it promotes / increases investment (resource utilisation)
    5. When there is need to reduce excess capacity
    6. When it increases the expected monetary returns on capital (marginal efficiency of capital)
    7. When it helps an economy to overcome a depression or recession.
    8. When it stimulates aggregate demand.
    9. Incase it promotes forced savings.
    10. When it re-distributes forced savings.
    11. When it encourages labour mobility.
    12. When it encourages development of entrepreneurship
    13. When it benefits borrowers.
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18.

(b) Adverse effects of inflation in an Economy.
1. Leads to loss of money value hence discourages saving.
2. Leads to loss of confidence in a country's currency.
3. Encourages capital outflows.
4. Forces some firms to close down.
5. Discourages local and foreign investment.
6. Encourages illegal activities.
7. Leads to production and consumption of poor quality goods.
8. Discourages lending as creditors stand to lose.
9. Leads to unemployment.
10. Fixed income earns suffer.
11. Leads uneven distribution of income.
12. Makes planning difficult.
13. Makes government become unpopular.
14. Leads to brain drain.
15. Leads to industrial unrest especially strikes.
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Any 12x1= 12mks

11. (a) The principal of comparative (cost) advantage status that given two countries, two commodities and the same level of resources, a country should specialise in production of a commodity in which it incurs the least opportunity cost compared to other country.

02marks

The theory is based on the following assumptions
1. Assumes only two countries (Bi- lateral trade)
2. Assumes only two commodities produces.
3. Assumes barter systems of trade.
4. Assumes that factors of production are homogeneous.
5. Assumes immobility of factors of production across boarders and mobilize with in the country.
6. Assumes same level of resources between countries.
7. Assumes taxed boarder restrictions / no trade restrictions.
8. Assumes full employment level of resources.
9 Assumes no transport costs between countries.

b) Limitation of the comparative (cost) advantage principle in developing countries.

1. The simplicity of considering only two commodities is unrealistic.
2. The simplicity of considering only two countries is unrealistic.
3. Assumes free trade yet trade Restrictions exist.
4. Ignores the possibility of absolute advantage.
5. Ignores the need for self reliance
6. Assumes full employment which is hard to achieve in developing countries.
7. Costs of production are not constant as the theory assumes.
8. Assumes barter trade yet it is hardly used in many developing countries.
9. Unrealistic assumption of perfect factor mobility with in the country and immobility between countries.
10. Ignores the transport costs.
11. Assumes that resources are static in supply which is unrealistic.
12. Assumes constant technology which is unrealistic i.e. there is technology advancement in LDCS.
13. Unrealistic assumption of static supply of resource.
14. Ignore the possibility of both countries having the same opportunity cost.
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Any 7x2= 14mks

12. (a)

Objectives of government budget include:-

1. To be use as a collecting tool during inflationary period.
2. To raise revenue for providing social service / infrastructural development.
3. To mobilise foreign resources.
4. To promote economic growth and development.
5. To discourage consumption of undesirable, harmful and dangerous goods.
6. To ensure promote allocation of resources.
7. To protect infant industries.
8. To reduce unemployment / create more employment opportunities.
9. To regulate investment in an economy.
10. To ensure equitable distribution of income among individuals or on an economy.
11. To correct B.O.P deficit.
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Any 6x1= 06marks.

(b) Measures that should be taken to minimize budgeting deficit include:-

1. Diversification of the economy
2. Reducing government expenditures in missions or foreign travels
3. Controlling population growth
4. Diversification of taxes / introducing new taxes.
5. Improving in tax administration.
6. Retrenchment / reducing civil servants.
7. Further privatization
8. Strengthening the industrial sector.
9. Intensifying war against corruption.
10. Minimizing tax incentives / tax relief.
11. Maintaining political stability
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Any 7x2= 14mks

END