



JINJA JOINT EXAMINATION BOARD

MARKING GUIDE 2019

ECONOMICS PAPER ONE

P220/1

SECTION A:

20 MARKS

1a) Four causes of price in elastic supply of agricultural products.

- ❖ Bulkiness of agricultural products hence transportation problem
- ❖ Perishability of agricultural products hence storage problems
- ❖ Long gestation period
- ❖ Heavy reliance on nature for their production
- ❖ Use of poor technology.

Any 4 x 1 = (4marks)

b(i) liquidity preference is the desire to hold ones assets /wealth in cash form instead of investing it *(1mark)*

While

- ❖ Liquidity ratio is the proportion of commercial bank total deposits kept in cash and near cash form *(1mark)*

ii) Two factors for high liquidity preference in an economy.

- ❖ High price levels
- ❖ High level of cash transactions
- ❖ High level of uncertainty
- ❖ Limited level of awareness about services provided by commercial banks.
- ❖ High level of illiteracy
- ❖ Low level of development of commercial banks
- ❖ High level of income

Any 2 x 1 = (02marks)

c) Four costs of economic growth.

- ❖ Leads to unemployment due to automation.
- ❖ Wideness income disparities
- ❖ Leads to cultural erosion
- ❖ Environmental pollution
- ❖ Leisure time is foregone
- ❖ Leads to low quality output
- ❖ Exhaustion of non- renewable resources due to over exploitation
- ❖ Promotes RUM and its evils
- ❖ Leads to industrial /occupational hazards
- ❖ Increases external dependence due to increased borrowing

Any 4 x 1 = (04 marks)

d(i) Trade creation is where after economic integration, trade shifts from a high cost non member source to a low cost member state *(1mark)*

While

Trade diversion is where after economic integration, there is a shift in trade from a low cost non- member state to a high cost member state *(1mark)*

ii) Two effects of trade diversion are:-

- ❖ High prices
- ❖ Low quality goods due to limited competition
- ❖ Limited variety of goods
- ❖ Loss of tax revenue
- ❖ Growth of infant industries in the economy.
- ❖ Smuggling of cheaper commodities from non- member states.

Any 2 x 1 = (02marks)

e(i) Collective bargaining refers to the round table negotiation between trade union representatives and employers over workers conditions of work. *(1mark)*

ii) Three methods used by trade union to achieve their objectives

- ❖ Collective bargaining
- ❖ Go – slow tactic /methods
- ❖ Sit down strikes.
- ❖ Sabotage /decampaining/ media wars
- ❖ Violent strike action
- ❖ Picketing /lock outs
- ❖ Abduction of key members of management
- ❖ Industrial court /mediation
- ❖ Demonstrations

any 3 x 1 = (03marks)

SECTION B: (80 MARKS)

2a) Effects of agricultural price fluctuation in an economy:-

- ❖ Unstable terms of trade
 - ❖ Unstable export earnings
 - ❖ Balance of payments instabilities
 - ❖ Planning is made difficult
 - ❖ Fluctuations in government revenue
 - ❖ Unstable incomes of farmers
 - ❖ Fluctuation in employment levels
 - ❖ Worsens income inequalities.
 - ❖ Investment in agriculture becomes uncertain leading to speculation.
 - ❖ Farmers get frustrated / discourage production.
 - ❖ Leads to RUM with its evils
- Any 10 x = (10marks)*

b) Measures that can/may /should be taken to stabilize prices of primary products in LDCs:-

- ❖ Improve on storage system so as to stabilize supply.
 - ❖ Improve on the transport/disposal system.
 - ❖ Modernization of agriculture to reduce dependence on nature
 - ❖ Use of stabilization policy
 - ❖ Industrialize within agriculture to add value.
 - ❖ Encourage cooperatives to regulate supply.
 - ❖ Operation of buffer stocks
 - ❖ Undertake market expansion and diversification
 - ❖ Price control by government by use of maximum price legislation
 - ❖ Agricultural decertification
 - ❖ Strengthen international commodity agreements
 - ❖ Stabilize costs of production through subsidization of farmers
- Any 10 x 1 = 10marks)*

3a) Labour supply is the number of people willing and able to work at a given wage rate **OR** is the measure of hours of work which are offered at a given wage rate per given period of time *(2marks)*

While

Demand for labour refers to the number of labourers an employer is willing to employ and retain in employment at a given wage rate for period of time. *(2marks)*

b) Factors that determine labour supply in an economy.

- ❖ The population size
- ❖ The number of hours worked
- ❖ The influence of trade unions.
- ❖ The health conditions of the worker
- ❖ The age composition of the population.
- ❖ The nature of working conditions.
- ❖ Nature of work/job
- ❖ Level of education/skills required for a given job
- ❖ The political climate prevailing
- ❖ The wage rate
- ❖ The sex composition of the population.
- ❖ The rate of migration of labour
- ❖ Attitude of workers towards work

Any 8 x 2 (16marks)

4a) The quantity theory of money states that the general price level in an economy is determined by the quantity of money in circulation, assuming that the velocity of circulation (V) and level of transaction (T) are constant **(2marks)**

- ❖ The theory is represented by the equation of exchange as

$$P = \frac{MV}{T} \text{ OR } MV = PT \quad (1mark)$$

❖ Where

M = amount of money in circulation P = general price level

V = Velocity of circulation

T = Level of transaction **(2marks)**

- ❖ According to theory the general price level and the quantity of money vary in direct proportion to each other
(1mark)

b) Limitations of quantity theory of money are as follows:-

- ❖ There is no general price level but rather a series of price levels which vary from one place /commodity to another
- ❖ Haggling between buyers and sellers to reach an agreeable price is taken into account by the theory .
- ❖ Government control of prices via maximum and minimum prices is not considered by the theory.
- ❖ The theory does not take into account other causes of price increases/inflation like cost push and demand pull factors .
- ❖ It ignores barter trade when it assumes that all transaction are effected using money.

- ❖ The theory only considers the transaction motive for holding money and ignores the precautionary and speculative motives.
- ❖ It ignores the influence of the rate interest in relation to money and its demand
- ❖ It only attempts to explain changes in the value of money but not how the value of money is determined.
- ❖ The theory assumes that velocity of circulation of money and the level of transactions are constant but this is not the case in real life.
- ❖ It does not take into account the demand for money but it only looks at money supply.
- ❖ The 4 variables M, V, P and T are not independent of one another because a change in one induces changes in others.
- ❖ An increase in money supply may result into higher savings and so prices may instead fall.
- ❖ If a country has many unemployed resources, the increase in money supply leads to increase in output of goods and services and so prices may instead fall

Any 7 x 2 = 14marks)

5a)

- ❖ Receiving of the initial deposit by the first commercial bank
- ❖ i.e bank A from a depositor *(1mark)*
- ❖ Keeping a % of the deposit as a cash ratio by the first bank
i.e bank A *(1mk)*
- ❖ Lending the balance to a credit worthy customer by bank A *(1mark)*
- ❖ Receiving the money lent out as a new deposit in the second bank i.e bank B *(1mark)*
- ❖ Keeping of a % of the deposit in bank B as a cash ratio. *(1mark)*
- ❖ Lending the balance to a credit worthy customer by bank B *(1mark)*
- ❖ The process continues till the initial deposit diminishes towards zero in the banking system *(1mark)*
- ❖ At the end of the process, the total credit created is obtained as

Total credit = Initial deposit x $\frac{1}{\text{cash ratio}}$

any 8 x 1 = *(08marks)*

b) Factors that limit the ability of commercial banks to create credit

- ❖ Small size of deposits from the public
- ❖ The high interest rates charged on loans.
- ❖ The restrictive monetary policy of the central bank.
- ❖ Low levels of investment

- ❖ Improvement of the BOP position
- ❖ Encouraging people to participate in the development process.
- ❖ Identifying areas suitable for public and private investments
- ❖ Soliciting foreign aid.
- ❖ Helps in relating current circumstances to future trends.
- ❖ Helps in harmonious use of resources
- ❖ Correction of the defects of the price mechanization *any 10 x 1(10marks)*

b) Factors that influence the level of implementation of development plans in LDCS.

- ❖ Availability of funds.
 - ❖ Amount of statistical data
 - ❖ The political climate prevailing
 - ❖ Level of accountability
 - ❖ The rate of inflation
 - ❖ The level of development of infrastructure
 - ❖ Size of skilled labour.
 - ❖ Level of government commitment
 - ❖ Level of public support / political will of the people.
 - ❖ Level of efficiency of implementation machinery/ level of coordination
 - ❖ Level of interference by politicians /political sabotage
 - ❖ Level of external interference/ level of dependence on foreign aid
 - ❖ The nature of plan objectives (achievable or over ambitious)
- any 10x 1= (10marks)**

END