MARKING SCHEME PAPER ECONOMICS 02 MARCH 2024

SECTION A 20%

1. A student is supposed to provide disadvantages of private crop buyers including the following
   i. Lead to price instability
   ii. Do not provide inputs to farmers like cooperative societies do
   iii. They reduce strength of cooperative societies
   iv. Have led to decline in quality for some products as they buy before maturity
   v. Have led to increase in level of theft of products from farmers
   vi. They do not help to improve quality of products
   vii. They do not provide education to farmers
   viii. They do not provide infrastructure to farmers like those provided by cooperatives like warehouses

   (Five (05) points @ 2Marks)

2. (i). Imperative planning involves mandatory regulations and controls to achieve specific targets It is done in socialism where there is central planning authority. In this planning, all economic activities and resources of the country operate under the direction of the state.

   (ii). Decentralized planning, involves developing the planning and implementation responsibilities to lower level of government like at district level or local bodies. For example, each region has its own plans which integrate all activities. However, the programmes should be accordance with attainment of national objectives.

   (iii). Partial plans. Forms plans that covers only few sectors of the economy, that is, few sectors of the economy are taken into consideration. It is mostly applied in capitalist economy.

   (iv). Rolling plans. Are flexible plans that are reviewed and reversed annually to reflect changing economic conditions and priorities.

   (v). Planning by directives, type of planning where the government controls and directs the allocation of resources and production of good and services. **(5 iterms @ 2 Marks)**

SECTION B 40 % MARKS.

3. A candidate is supposed to writ the functions of central bank in the economy.

    I. Banker to the government as it keeps government funds.
    II. Banker to commercial banks available in the given economy.
    III. It issues and renews all countries` notes and coins.
    IV. Maintains stability of internal and external value of the currency.
    V. It supervises all commercial banks and takes over management of commercial banks which increases peoples` confidence in banking.
    VI. Implements monetary policy by the use of bank rates, open market operation, legal reserve requirements etc.
    VII. It controls activities of foreign banks so that they serve in national interest.
    VIII. It is a manager and custodian of foreign currencies.

(Any five points @ 2 Marks)

B. A student has to provide importance of east African community.

    I. Expansion of market among member states due to abolition of trade restrictions.
    II. Promotion of competition due to free trade and free movement of factors of production.
    III. Increased specialization among states which has increased scale of production.
    IV. Increased employment opportunities due to free movement of labour and increased investment.
    V. Promotion of friendly relationship due to social, cultural and political inter connection which strengthen and consolidated social and political ties among the member states.
    VI. Increased the bargaining power among member state in international matters.
    VII. Transfer of technology among member states.

(Any five points @ 2 Marks)

4. Factors influencing saving in the economy.
    I. Income (disposable income). The disposable income the more saving will be and its vice versa, cetelis paribus.

II. Interest rate, since level of interest rate by financial institutions determine amount to be saved then high interest encourages people to save and its vice versa.

III. Taxation, level of tax influences the size of disposable income which is for saving and consumption. Then the high the tax the small the size of disposable income will result into less saving and its vice versa.

IV. Expectations like to finance future transaction and for precaution also affect level of saving.

V. Availability of financial institutions, saving schemes which mobilize saving also influences saving in the economy.

VI. Government expenditure. Increase in spending by state increases people`s income which enable them to save.

VII. Price stability. That is at deflation or inflation upon loosing or gaining value.

. **(Any five points @ 2 Marks)**

B.

I. a) income multiplier = change in income / change in total expenditure **(1 Mark)**

BUT change in income = 250-110=140………**(1 Mark)**

Change in total expenditure = (100+40+45+65) – (40=30+20+20) = 140.

Income multiplier =140/140= 1. Note : in come multiplier measures the number of times the initial change in expenditure multiplies to give a final change in come .

And total expenditure = c + 1+(x+(x-m)= in come .

1. (b) investment multiplier $= \dfrac{\text{Change in income}}{\text{change in investment}}$

$$= \frac{250-110}{100-40} = \frac{140}{60} = 2.33\ldots\ldots$$ **(1 Mark)**

NB: The investment multiplier measures the number of times the initial change in investment expenditure multiplier to a given change (c) Government expenditive multiplier = measures the number of times the initial change in government expenditure multiplier to give the change in final income

$$= \frac{\text{Change in income}}{\text{change in government expenditure}}$$

$$= \frac{250-110}{40-30} = \frac{140}{10} = 14$$ ……**(1 Mark)**

(d) Tax multiplier = measures the number of times the initial change in tax multiplier to give a change in final income .

$$= \frac{\text{Change in income}}{\text{change in taxes}} = \frac{250-110}{10-20} = \frac{140}{10} = -14$$ ……**(1 Mark)**

(e) Expeort multiplier = measures the number of time change in net export (x-m) multiplies to give a change final income .

$$= \frac{\text{Change in income}}{\text{change in net export}}$$

$$= \frac{250-110}{((60-15))-((40-20))}$$

$$= \frac{140}{45-20} = \frac{140}{25} = 5.6$$

(f) Accelerator shouss the number of times the initial change in income multiplier to give a change in investment .

$$= \frac{\text{Change in investment}}{\text{change in income}}$$ **0.5 Mark**

(ii) Marginal propensity to export is the fraction of change in total income that is used to import.

$$= \frac{\text{Change in import}}{\text{change in income}}$$ **0.5 Mark**

$$= \frac{15-20}{250-110} = \frac{-5}{140} = -0.04$$ **0.5 Mark**

Marginal propensity to export is the fraction of change in toatal income that is derived from export.

$$= \frac{\text{Change in export}}{\text{change in income}}$$

$$= \frac{60-40}{250-110} = \frac{20}{140} = o.14$$ **0.5 Mark**

(iii) Aggregate demand in 2021 = $c + I + G + (X - M)$

$= 65 + 100 + 40 + (60 - 15)$

$= 250$ **0.5 Mark**

(iv) Marginal propensity to tax

$$= \frac{\text{Change in tax}}{\text{chanle in income}}$$

$$= \frac{10-20}{250-110}$$

$$\frac{-10}{140} = 0.07$$ **0.5 Mark**

Marginal propensity to consume (mpc)

$$= \frac{\text{Chanle in consumption}}{\text{chanle in income}}$$

$$= \frac{65-20}{250-110}$$

$$= \frac{45}{140} = 0.32$$ **0.5 Mark**

Marginal propensity to save (mps)

$$= \frac{\text{Change in savings}}{\text{change in income}}$$

from mps +mpc =1

mpc = 0.32

mps =1—0.32

mps =0.68 **0.5 Mark**

5. A. A student has to provide negative results of free trade;

I. Collapse of infant domestic industries which can`t compete with those industries found in developed nations if there will be no protectionism.
II. Balance of payment deficit due to more importation by developing nations.
III. Dumping done by developed nations onto the economy of developing countries.
IV. Increased dependency on imports from foreign countries which distorts the nation economic sovereignty.
V. May lead to an increased unemployment in the country. As when the country fails to compete them there will be less production taking place within hence less job opportunities or less utilization of domestic resources.
VI. Importation of dangerous and harmful commodities from partners and developed nations.

……………………ANY FIVE POINTS @ 02 % MARKS ==10 % MARKS.

B. Answer for the question.

i. Student has to analyze that: -

Basing on the absolute advantage theory of international trade no trade can take place between the two countries, because as per absolute advantage theory for the trade to take place between two countries each country need to have an absolute advantage in production of one of the different commodity from that the other country is producing. (1mark)

Basing on comparative advantage theory though one country is with absolute advantage in the production of both commodities but still trade can take place between these two countries. (1Mark).

ii. Student should explain that matter of what country to specialize in the production of what commodity depends on the computation of an opportunity cost. And it should be noted that there are two ways a student can use in that computation a student can use data of the same country in computation and rule by comparing same commodity from different country and here the a country with the lowest opportunity cost specialize on production of that commodity, but also student can decide to compute opportunity cost using data of the same good from different country and ruling base on two different good of the same country here the commodity with greatest opportunity cost is chosen. Therefore let us compute opportunity cost first as follows:

By using data of different goods of the same country

COUNTRY A

Opportunity cost of producing good X =Foregone alternative/Actual production

Units of good Yof Country A/Units of good X of Country A

8/10

0.8 (1 Mark)

Opportunity cost of producing good Y = Foregone alternative/Actual production

Units of good X of Country A/Units of good Y of Country A

10/8

1.25 (1Mark)

COUNTRY B

Opportunity cost of producing good X =Foregone alternative/Actual production

Units of good Yof Country B/Units of good X of Country B

4/6

0.67 (1Mark)

Opportunity cost of producing good Y = Foregone alternative/Actual production

Units of good X of Country B/Units of good Y of Country B

6/4

1.5 (1 Mark)

Conclusion.

Let us compare opportunity cost of producing one commoty in two different counties and choose the lowest opportunity cost.

Opportunity of producing good X

Country A is 0.8 and Country B is 0.67 because 0.67 is less comparing to 0.8 Country B has to produce good X

Opportunity of producing good Y

Country A is 1.25 and Country B is 1.5 because 1.25 is less comparing to 1.5 Country A has to produce good Y.

Student's opinion should be different from the argument instead of County A to produce good X let now produce good Y as per computation, and instead of country B to produce good Y let it now produce good X.(1 Mark)

OR

Student can compute opportunity cost by using data of same good in two different countries as follows: -

By using data of same good in different countries

COUNTRY A

Opportunity cost of producing good X = Units of good X of country A/Units of good X of country B

Units of good X of Country A/Units of good X of Country B

10/6

1.67

Opportunity cost of producing good Y = Units of good Y of Country A/Units of good Y of Country B

8/4

2

COUNTRY B

Opportunity cost of producing good X = Units of good X of Country B/Units of good X of Country A

6/10

0.6

Opportunity cost of producing good Y = Units of good Y of Country B/Units of good Y of Country A

4/8

0.5

If student use this method conclusion is done by comparing production of two different goods in one country and that the largest opportunity cost is chosen as follows: -

COUNTRY A

Opportunity of cost of producing good X is 1.67 and opportunity cost of producing good Y is 2 therefore 2>1.67 Therefore country A has to produce good Y

COUNTRY B

Opportunity of cost of producing good X is 0.6 and opportunity cost of producing good Y is 0.5 therefore 0.6>0.5 Therefore country B has to produce good X.

iii. From the data above a country with an absolute advantage in production of both good has comparative advantage though has more comparative advantage in production of one of the two comparing to the other from the data Country A has an absolute advantage in production of both commodities therefore country A has comparative advantage but she has more comparative advantage in the production of good Y than in producing good X. While country with no absolute advantage in any of the commodity has comparative disadvantage and is said to have less comparative disadvantage in production of one of the good comparing to the other therefore this country need to specialize in production of good with least comparative disadvantage for example from the data given country B is with no absolute advantage in production of any commodity therefore has disadvantage but she has least comparative disadvantage in production of good X than in producing good Y. (3 Marks)

SECTION C 40% MARKS

6. A student is required to provide benefits of economic growth.

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another measured in nominal or real terms.

i. It can redistribute income without making others worse off.
ii. It can reduce poverty due to increased income to meet basic needs.
iii. It can lead to an increased standard of living due to increased income per head and increased availability of goods and services.
iv. Reduced unemployment problem due to creation of more job vacancies.
v. It can lead to increase in consumption in the economy as more items are available for consumption provided that people are able to demand.
vi. May lead to an increased tax revenue collection due to increased production (taxable capacity) hence reduces government borrowing.

vii. May lead to increased investment by firms which enable further utilization of resources as high economic growth encourage firms to take risks.

Introduction …………….. 01 % marks

Main body ……. any six points @ 03 % marks

Any relevant conclusion ……….. 01 % marks

……………………………………….. 20 % marks

7. Factors determining incidence of tax.

Incidence of tax means final resting place of the tax burden after all individuals and firms have adjusted their behaviour.

i. Price elasticity of demand and supply for a given commodity. Whether elastic or inelastic this will make a producer or consumer to bear the tax burden.
ii. Market condition, either imperfect or perfect market competition which relate to the ability of setting price and its possibility to shift to shift the tax burden.
iii. Time period. Either short run or long run for making adjustment or for developing alternatives in production determines the possibility of shifting the tax burden.
iv. Availability of substitute. As it is possible to shift the tax burden to those commodities with close substitute compare to those with less or no substitutes.
v. Nature of tax, whether it is direct or indirect and normally it is possible to shift the tax burden if the imposed tax is indirect one.
vi. Business condition. Prosperity or depression. Tax burden can easily be shifted at the period rising price when the economy is prospering compared to when the economy is at depression the period where prices fall.
vii. Government policy on pricing. In case of government price control, the supplier can not shift the tax burden.

viii. Rate (magnitude) of tax. If the rate is too high shifting can occur in backward or forward, if it is too low tax burden can be absorbed by producers.

Introduction ,,,,,,,,,,,,,,,,,,,,,,, 01 % marks

Main body; six points @ 03% marks

Any relevant conclusion ,,,,,,,,,,,,,,,,,, 01 % marks

……………………………………………………… 20 % marks

8. definition

Policy adopted to minimise reliance on developed nations by limiting imports and encouraging domestic manufacturing.

i. More employment due to growth of local industries.
ii. Helped to the grow of small-scale businesses as the demand for domestic products increased.
iii. Increased export
iv. Increased the utilization of domestic resources.
v. Helped to reduce imported inflation and dumping as several of products were are being produced within the economy.
vi. Created or expanded the market for domestically produced raw materials.
vii. Helped to reduce balance of payment problem through reduced importation.
viii. Helped to increase trade independence in our economy as some of output where being produced domestically instead of being imported.

Introduction,,,,,,,,,,,, 01% marks
Main body six points @ 03 % marks

Any relevant conclusion ………. 01 % marks

,, 20 % marks