ECONOMICS 1

MARKING SCHEME - 2024

1. Economic growth policies of Tanzania:

i) Infrastructural development

ii) Technological improvement by strengthening education, training and research

iii) Expansion of market through membership in different regional economic intergration like SADC, EAC

iv) Privatisation policies

v) Economic stabilization example: combating inflation and unemployment

vi) Encourage foreign direct investment

vii) Income redistribution by subsiding the poor

viii) Population control

ix) Maintanance of peace and order

x) Encourage international tourism.

Any five (5) points @ 2 = 10 Marks

2. Factors for successful economic planning or pre-requisite of economic planning or Factors for effective economic planning.

i/ Effective planning machinery

ii/ Reliable economic data and information

iii/ Plan coordination and consistency

iv/ Enough resources or funds

v/ Effective and efficient administrative team (honest administration)

vi/ Suitable institutions organization

vii/ Public cooperation

viii/ Political will and commitment

ix/ Time frame

x/ Political stability

Any five (5) points @ 02 = 10 Marks

SECTION B

3 (a) Given : $C = 200 + 0.8Y$ and $I = 400$

Required:

i) Saving function = ?

from: $Y = C + S$ 01

$\therefore S = Y - C$

$S = Y - (200 + 0.8Y)$

$S = Y - 200 - 0.8Y$

$\underline{S = -200 + 0.2Y}$ 01

ii) At equilibrium national income; Saving = Investment

$S = I$ 01

$\therefore -200 + 0.2Y = 400$

$0.2Y = 400 + 200$

$\frac{0.2Y}{0.2} = \frac{600}{0.2}$

$Y = 3000$ 01

$\therefore$ Equilibrium national income (Y) = 3,000₣

iii) Investment multiplier (K) = ?

From:

$K = \frac{1}{1 - MPC}$ 01 , where $MPC = 0.8$

$\therefore K = \frac{1}{1 - 0.8}$

$= \frac{1}{0.2}$ 01

$= 5$

$\therefore$ Investment multiplier = 5 times

3 a) iv/ Consumption level (c) at equilibrium national income

$c = 200 + 0.8Y$ --- (given)

At equilibrium $Y = 3000$ --- (ii) 01

$\therefore c = 200 + 0.8Y$

$c = 200 + 0.8 \times 3000$

$c = 200 + 2400$

$c = 2600$

$\therefore$ Consumption level $= 2,600$₣ 01

v/ New level of income, when investment increased by 100

$Y_1 = 3000$ (income at equilibrium)

Let Y_2 = new income

$\rightarrow Y_2 = Y_1 + \Delta Y$

$\underline{Y_2 = 3000 + \Delta Y.}$

$\rightarrow K = \frac{\Delta Y}{\Delta I}$, and $K = 5$, $\Delta I = 100$

$\therefore K = \frac{\Delta Y}{\Delta I}$

$5 = \frac{\Delta Y}{100}$ 01

$\underline{\underline{\Delta Y = 500}}$

$\therefore Y_2 = 3000 + \Delta Y$

$Y_2 = 3000 + 500$ 01

$= 3500$

$\therefore$ New level of income $= 3,500$₣

3 (b) i/ The situation labeled A, is deflationary gap; it occurs when aggregate supply exceeds aggregate demand at the less than full employment, with the result that there is downward presure on price! 01

The situation labeled B is infationary gap: it occurs when aggregate demand exceeds aggregate supply at full employment level of factor resources. 01

@ Point = 1 Mark
Explanation = 1 mark

ii/ Policies which can be applied to close deflationary gap

- Increasing the volume of exports
- Adopting expansionary monetary policy which increase money in circulation hence increase in demand.
- Increase government expenditure
- Reducing taxes
- Increasing wages

Any three points @ 01 = 03 Marks

Policies which can be applied to close inflationary gap

- Reducing of government expenditures
- Encourage foreign investors in the country to increase aggregate supply
- Increase in personal taxes to reduce aggregate demand (purchasing power of individuals)
- Use of price policy (price legislation)
- Improving techniques of production to increase production and aggregate supply

Any three (3) points @1 = 03 Marks

Total = 20 Marks

4. (a) The bank of Tanzania is the hub of banking sector in the country due to its major functions including;

i/ To issue country currency
ii/ It is a bank to other banks
iii/ Lender of last resort
iv/ It supervises other banks
v/ It is a bank to the government = 10 Marks

Any five points @2

(b) Assumptions of credit creations

i/ Assumes one bank with many branches which have cooperation among themselves
ii/ A certain cash ratio is given and maintained
iii/ All banks are willing to advance loans to the borrowers who meet the minimum conditions for borrowing
iv/ All payments are made through the banks by using cheques
v/ The public is willing to borrow from banks
vi/ No government interference.

Any four (4) points @2 = 08 Marks

(c) Given:

Initial deposit = 1,000,000/=
Reserve ratio (r) = 20%

From:

$$\text{Creation of credit} = \frac{\text{Excess reserve}}{\text{Reserve ratio}} \quad 01$$

$$= \frac{1,000,000}{20\%}$$

$$= \frac{1,000,000}{0.2} \quad 01$$

$$= 5,000,000/=$$

Total = 20 Marks

5. a) i/ Country B has absolute advantage in production of both goods (food and manufactures), because it uses few resources in production of both goods compared to country A.

i.e – Country B needs 1 input to produce food while country A needs 2 inputs.

– Country B needs 2 inputs in production of manufactures while country A needs 3 units.

03 Marks

ii/ – Opportunity cost of manufacture in country A is $3/2$ and

– Opportunity cost of food in country A is $2/3$

– Opportunity cost of food in country B is $1/2$

– Opportunity cost of manufactures in country B is $2/1$

03 Marks

By comparing opportunity cost; therefore;

Since opportunity cost of manufactures in A is less than opportunity cost of manufactures in B, country A has comperative advantages in production of manufactures. That is country A can produce manufactured relatively more ~~than~~ and efficiently than B. 03 Marks

Also

Since the opportunity cost of food in country B is less than opportunity cost of food in country A, then country B has comperative advantages in production of food than A. That is country B can produce food relatively more efficiently than A.

03 Marks

5. (b) Ways of removing/solving deficity balance of payments

i/ Export promotion

ii/ Import restrictions

iii/ Depreciation of currency (so as to encourage export)

iv/ Deflationary policy

v/ Increase production (greater production)

vi/ International Co-operation

Any four (4) points @2 = 08 Marks

Total = 20 Marks

SECTION C

6. Reasons for increase in public expenditures

i/ Rapid population growth
ii/ Defence and internal security
iii/ Expansion of social services
iv/ Burden of democracy (multiparty system and frequently election)
v/ High price levels (inflation)
vi/ Technological changes
vii/ Eruption of diseases like corona, red eyes etc
viii/ Public debts (repayment of loan with high interest rate)

Introduction 01 mark
Main body 6 points @ 3 = 18 marks
Conclusion 01 mark
Total = 20 Marks

7. Advantages of private crop buyers

- It reduced bureaucracy of buying and selling crops
- Most of them provide incentives to peasants
- Expand market for crops
- It has reduce the burden of government expenditures

Any three (3) points @ 3 = 09 marks

Disadvantages of private crop buyers

- It has weakened the bargaining power of peasants
- They are mostly after profits
- They do not support infrastructural development
- The do not provide inputs to peasants like subsidies (provided by government)

Any three (3) points @ 3 = 09 marks

- Introduction 01 mark
- Conclusion 01 mark

Total = 20 Marks

8. Measures to improve industrial sector in Tanzania.

i) Development of infrastructures

ii) Expansion of agriculture

iii) Improving technological system

iv) Protectionism policy

v) Price stabilization

vi) Improving the capital market and financial service

vii) Improving research and exploration on energy

viii) Widening of the scope of industrial sector

Introduction = 02 marks

Main body: Any 8 points @2 = 16 marks

Conclusion = 02 marks

Total = 20 marks