TANZANIA HEADS OF ISLAMIC SCHOOLS

FORM SIX INTER ISLAMIC MOCK EXAMINATIONS

ECONOMIC 2

MARKING SCHEME

CODE: 151/2 **2025**

1. Policies adopted to promote private sector in Tanzania.
   (i) Infrastructure building (both economic and social infrastructures)
   (ii) Price stabilization by using maximum and minimum prices
   (iii) Provision of inputs so as to encourage production activities
   (iv) Maintenance of peace/security and political stability
   (v) Provision of economic incentives to private firms e.g. subsidization, tax holidays
   (vi) Poverty alleviation programmes to improve purchasing power of individuals
   (vii) Privatization of state enterprises
   (viii) Economic liberalization
   Any 05 points @ 02 marks
   TOTAL = 10 MARKS

2. Explain five (5) merits of economic union
   Economic union: This is the stage where member countries eliminate all trade barriers among themselves, charge a common tariff structure on commodities from non-member countries and they allow free mobility of factors of production within the region. In addition, it, member countries jointly own certain enterprises like Banks, Railways, roads etc. But also countries may also decide to establish a common currency, single central bank and common monetary policies (common monetary union).

   The following are the merits or advantages of economic union
   Increases the bargaining power of member states: An economic union helps to increase the bargaining power of the member states. Member states negotiate jointly on matters of their common interest.

   Promotes competition among the member states: Some competition helps to improve efficiency in the producing of quality goods and services.

   Leads to trade creation: As trade barriers are removed, volume of trade among member states tend to expand. The expansion of the trade promotes growth of production in member countries.

   Helps to attract local and foreign investment: This is due to the fact that economic Union enables member states to enjoy economies of scale. As the market size becomes wide, firms are prompted to expand production of goods and services and hence lowering the production average costs.

Promotes specialization among member states: Specialization in production of goods and services leads to a large scale production in all countries in the economic union. In such specialization, cost of production decrease to exploitation on economies of scale and hence increasing profit.

Reduces unemployment problem in the region: This can happen through increased production and free movement of labour from one country to another to search for jobs. Reduced unemployment is possible when production levels increase and call for the increase in demand for factors of production such as labour.

Possibility of operating common services jointly: At this stage of economic union the common services like transport and communication such as air transport, road transport and railways transport could be operated jointly. In this regard there would be no need for every country to operate individually these services. The common services would reduce the cost of operation and the quality goods and services are provided to its member states.

Promotes the transfer of technology: It facilitates the transfer of technology through cooperation in education, training, science and technology programmes. Through these programmes people may share some skills, experience and knowledge. Development of technology can help to raise productivity in all member states.

Any 05 points @ 02 marks
TOTAL = 10 MARKS

SECTION B (40 Marks)

Answer two questions from this section

3. (a) **Weaknesses of using income per capita to compare standard of living (5 x 2=10 marks)**

Differences in taste and preference: People from different countries have different tastes and preferences. For example, due to geographical differences a person living in Europe has to spend more on in-house heating during winter than does a Tanzanian due to the variations in climatic condition. Obviously, neither the European nor the Tanzanian better off in this aspect. However, when using the per capita income figures to compare their welfare, the figures may indicate that a European is better off than a Tanzanian.

Currency variation: The per capita income figures are expressed in differences. They have to converted into a common currency in order to make proper comparison. Using the exchange rate for this purpose, however, is not conclusive. This is because the rate may not accurately reflect the internal purchasing power of a currency.

Countries differ in spending: The proportion of income spent by different countries on defence and non-welfare improving activities vary. Countries which spend less on non-welfare improving activities can enjoy consumer goods and improve standard of living, but per capita income does not indicate these differences.

Variation in the length of the working hours: Countries vary with regard to the length of the average working hours and the proportion of women who work. It may happen that, the high per capita income in one country is a result of working for long hours while sacrificing leisure. However, per capita income measure does not show this fact.

Per capita income fails to measure adequately changes in the value of output due to changes in the price level: Price index used to measure price changes are simply approximations. Thus, they cannot adequately measure economic performance.

The increase in per capita income may not raise the real standard of living of all people: It is possible that while per capital consumption might be falling. People might be using the increased income to increase their saving.

It fails not consider issues of externality: The outcome of per capital income is calculated without considering the issue of externality.

(b) An economy of a certain country is given by Y = C + 1 + G + (X-M) Given:

C = 200 + 0.80Y, 1=400, G=500, X = 200 and M = 100 + 0.05Y

Solution:

(i) Y = C + I + G + (X-M)
Y = 200 + 0.80Y + 400 + 500 + (200 – (200 – (100 + 0.05Y))
Y = 200 + 0.80Y + 400 + 500 + (200 – 100 – 0.05Y)
Y = 200 + 400 + 500 + 100 – 0.080Y – 0.05Y
Y = 1200 + 0.75Y
0.25Y = 1,200

$$\frac{0.25Y}{0.25} = \frac{1200}{0.25}$$

∴ Equilibrium National Income = 4,800 **02 marks**

(ii) Consumption expenditure
C = 200 + 0.80Y
But Y = 4,800
C = 200 + 0.80 (4800)
C = 200 + 3,840
<u>C = 4040</u> **02marks**

(iii) Investment multiplier
Investment multiplier $= \frac{1}{MPS}$
MPC + MPS = 1
MPS = 1 – MPC
C = 200 + 0.80Y

$$\frac{dc}{dy} = 0.8$$

MPC = 0.8
MPS = 1 – 0.8
MPS = 0.2

$\therefore$ Investment multiplier = $\frac{1}{0.2}$

<u>Investment multiplier = 5 times</u> **02marks**

(iv) Marginal propensity to save (MPS)
MPC + MPS = 1
0.8 + MPS = 1
MPS = 1 – 0.8
<u>MPS = 0.2</u> **02 marks**

(v) New equilibrium national income when investment increased by 100
Investment was = 400
Now, investment = 400 + 100
Investment = 500
New equilibrium national =?

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

$$5 = \frac{Y_2 - Y_1}{I_2 - Y_1}$$

$$5 = \frac{Y_2 - 4800}{500 - 400}$$

$$\frac{5}{1} = \frac{Y2 - 4800}{100}$$

$500 = Y_2 - 4800$
$Y_2 = 5300$
<u>Equilibrium National Income = 5,300</u> **02 marks**

4. (a) Monetary measures/tools used by central bank to control money supply.
(i) Open market operation. (OMO)
(ii) Selective credit control
(iii) Variable reasons requirement
(iv) Special deposits/supplementary resource requirement
(v) Direct action
(vi) Moral suasion
(vii) Bank rate policy (Discount rate)
Any 5 points @ 02 marks
TOTAL = 10 MARKS

(b) Solution
Data give

- Initial deposit = 5000
- Reserve ratio = 20%

(i) Total final deposit/deposits creates

$$TD = \frac{Initial\ cash\ deposit}{Cash\ ratio}$$ ………………………… **00 ½ mark**

$= \frac{5000}{0.2}$

= 25000/=

∴ Deposit created = 25000/= …………………. **02 marks**

(ii) Total cash reserve (TR)

$$TR = \frac{Initial\ cash\ reserve}{Cash\ ratio}$$

OR

Initial deposit = Total reserve

$= \frac{1000}{0.2}$

= 5000

∴ Total cash reserves = 5000/= **………….. 02 marks**

(iii) Total amount of loans advances

= Total deposit – Total Reserve

= Initial loan x Money multiplier

$= \frac{\text{Initial loans advance}}{\text{Cash ratio}}$ **00 ½ mark**

But if 20% is kept as cash ratio, and 80% is borrowed

The initial loan advance $= 5000 \times \frac{80}{100}$

= 4000 **00 ½ mark**

∴ Total loans advance $= \frac{4000}{0.2}$

= 20,000 **00 ½ mark**

(iv) Money multiplier $= \frac{\text{Total final deposit}}{\text{Initial deposit}}$

OR

1/Cash ratio. **00 ½ mark**

$= \frac{25000}{5000}$ = Stima

∴ Money multiplier = Stima **02 marks**

TOTAL = 20 MARKS

QUESTION FIVE

(a) (i) **Which country has absolute disadvantage in production of cotton?** (2marks)

Tanzania has an absolute disadvantage in production of cotton because it is producing less tons of cotton compared to Uganda.

(ii) Which Country has comparative advantage in coffee? (2marks)

Solution

Opportunity cost of producing 1 ton of coffee = $\frac{cotton}{coffee}$

Countries	Tons of cotton	Tons of coffee	Opportunity cost/sacrifice	
			Cotton	Coffee
Tanzania	3	9	3	0.3
Uganda	4	8	2	0.5

From the above table the opportunity cost of producing 1 ton of coffee 0.3 tons of cotton for Tanzania and 0.2 tons of cotton for Uganda. Therefore, **Tanzania has a comparative advantage** in producing coffee because it has lower opportunity cost which is 0.3 tons of cotton while Uganda is 0.2 tons of coffee

(iii) Which country has comparative advantage in producing cotton? (2 marks)

Solution

Comparative advantage in producing **cotton** = $\frac{coffee}{cotton}$

Countries	Tons of cotton	Tons of coffee	Opportunity cost/sacrifice	
			Cotton	Coffee
Tanzania	3	9	3	0.3
Uganda	4	8	2	0.5

From the above table the opportunity cost of producing 1 ton of cotton is 3 tons of coffee for Tanzania and 2 of coffee for Uganda. Therefore, **Uganda has comparative advantage** in producing cotton because it has lower opportunity cost which is 2 tons of coffee than Tanzania which has 3 tons of coffee.

(iv) Show how countries should specialize in order to gain from trade (2 marks)

For both countries to gain from trade Tanzania should specialize in production of coffee because it has lower opportunity cost and import cotton from Uganda, While Uganda should specialize in production of cotton because it has lower opportunity cost and import coffee from Tanzania.

(vi) Show tons of cotton and coffee produced after specialization (2marks)

Countries	Before specialization	After specialization

= 25000/=

∴ Deposit created = 25000/= ---- 02 marks

ii) Total Cash Reserve (TR)

$$TR = \frac{\text{Initial cash Reserve}}{\text{Cash ratio}}$$ ---- 00½ marks

OR

Initial Deposit = Total Reserve.

$$= \frac{1000}{0.2}$$

= 5000

∴ Total cash reserve = 5000/= ---- 02 marks

iii) Total amount of loans advance.

= Total Deposit − Total Reserve.

OR.

= Initial loan × Money multiplier.

OR

$$= \frac{\text{Initial loans advance}}{\text{Cash ratio}}$$ ---- 00½ marks

but if 20% is kept as cash ratio, and 80% is borrowed

The initial loan advance = $5000 \times \frac{80}{100}$

= 4000 ---- 00½ marks

∴ Total loans advance = $\frac{4000}{0.2}$

= 20,000 ---- 01½ marks

iv) Money Multiplier = $\frac{\text{Total final deposit}}{\text{Initial Deposit}}$ ---- 00½ mar

OR

1/cash ratio.

$= \frac{25000}{5000}$ = 5 times.

5 times

∴ Money Multiplier = 5 times ---- 02 marks

TOTAL = 20 MARKS

8

SECTION - C

6 Introduction.
Define Indirect tax

Main body.
Importance of Indirect tax
I) It is difficult to evade since it is paid when goods or services are bought.
II) They have a wide coverage.
III) It is less painful for tax payers since it is paid as part of the price.
IV) It is convenient
V) They do not harm the incentive to work.
VI) It is flexible or elastic
VII) Economic or cost effective
VIII) Powerful tool of Economic policies
IX) Help in reducing consumption of harmful goods

Introduction = 1 mark
Main body = six point (6) @ 3 marks
Conclusion = 1 mark.

TOTAL = 20 MARKS

	Cotton	Coffee	Cotton	Coffee
Tanzania	3	9	0	18
Uganda	4	8	8	0
Total	7	17	8	18

@ 2marks

(b) **The following are the factors affecting terms of trade**

Elasticity of demand and supply of a country's products: When the demand for a country's exports is inelastic compared to the demand of imports, the prices of its imports will be higher hence a country will experience favourable terms of trade and vice versa is true. If the elasticity of supply of exports from a country is elastic a country will be able to adjust its supply according to demand hence a country may be able to enjoy favourable terms of trade and vice versa is true.

Nature of the goods produced by the country: If a country produces primary products eg. Foodstuffs and raw-materials, there is a very possibility that a country may experience unfavourable terms of trade since demand for these products is normally declining with economic development. That is, they will then be sold at falling or low prices while they demand industrial products which fetches higher prices.

Exchange rate policy of the country: Currency appreciation leads to favourable terms of trade because it increases the price of exports while devaluation leads to the Increase in the prices of imports and reduces the prices of exports hence unfavourable terms of trade.

Trade restrictions like tariffs and quotas: An import tariffs or quotas improve the terms of trade of the tariff-imposing country. As a result of the imposition of tariffs or quotas imports will be reduced in relation to exports and its terms of trade will be improved. But free trade may lead to deteriorating term of trade because it encourages more import.

Availability of substitutes of a country's product in the world or foreign markets: A country will be able to enjoy a favourable terms of trade if the product exported by her do not have close substitutes. Non availability of substitutes allows a country to sell her products at a higher price and vice versa is true. But if the country produces import substitute goods in sufficient quantities, its import demand for such goods will be low and as a result it will import less and its terms of trade will be favourable and vice versa.

Technology: This influences the quantity and quality of the products produced by the country. The higher the technology, the superior the goods and the favourable terms of trade and vice versa is true. Additionally, if the technological changes lead to the Production of more export goods, their supply will increase prices will fall relatively to its imports leading to unfavourable terms of trade. On the contrary, if it leads to the production of more competing goods, its volume of world trade will be less and its terms of trade will improve.

Economic growth: Economic growth increases demand for imports as a result of increase in per capita income with economic growth. On the other hand, it increases the supply of export goods and import competing goods. The net effect of these two effects will ultimately determine the terms of trade of the country. That is if the effect of demand is more than supply and the volume of trade increase through imports, its terms of trade will be unfavourable. But if the effect of supply is more powerful than the effect of demand and the country trade volume increases through rise in exports and import competing goods, the terms of trade will improve.

Inflation and deflation.

Any five (5) points @ 02 mark

Total = 10 mark

10

TOTAL = 20 MARKS

7. Introduction

Explain about concept of Rostow's Stages of Economic development.

Main body

Tanzania seem to be in second stage of Economic development due to the following.

i) Improvement of technology.

ii) Investment directed directed toward constration of Economic and social infrastructures

iii) Increasing number of entrepreneurs in the different sectors.

iv) Financial sectors are increasing in the country.

v) Increase in productivity.

vi) The economy become dualistic in nature.

vii) Rise in national income due increase in the rate of investment.

Introduction = 1 mark

Main body = six points (6) @ 3 marks

Conclusion = 1 mark

TOTAL = 20 Mark.

8 Introduction
Define Road transport.

Main body.
Disadvantages (Short coming) of road transport:-

i) It handles a specific and limited amount of goods.

ii) Usually heavy loaded lorries are to slow to cover up the expected distance on time.

iii) It is too riskly, especially for delicate goods. like computer, glass material etc.

iv) It has led to the Increase of road accidents leading to the loss of lives of many people.

v) when there is Congestion road transport causes delays

vi) It is highly susceptible to attack by high way robbers on the way.

vii) Road transport is highly affected by weather condition especially in rainy season most of roads become impossible.

Introduction = 1 mark
Main body = Six point (6) @ 3 marks
Conclusion = 1 mark
TOTAL = 20 MARKS.