

ECONOMICS

Date: 21 /06 /2022

Period: 8h30-11h30



END OF TERM III EXAMINATIONS 2021-2022

GRADE / LEVEL:

S5

OPTION /

COMBINATIONS :

TRADES:

-

- HISTORY -ECONOMICS – GEOGRAPHY(HEG)
- HISTORY -ECONOMICS- LITERATURE(HEL)
- LITERATURE-ECONOMICS- GEOGRAPHY(LEG)
- MATHEMATICS- ECONOMICS- GEOGRAPHY(MEG)
- MATHEMATICS –COMPUTER SCIENCE-ECONOMICS (MCE)

DURATION:3HOURS

MARKS:

..... /100

INSTRUCTIONS

- 1) Write your names and your number on your answer booklet.
- 2) Do not open this question paper until you are told to do so.
- 3) This paper consists of **two** sections: section **A** and **B**.

SECTION A: Attempt all questions (55marks)

SECTION B: Attempt any Three questions (45marks)

- 4) Give explanations and relevant examples where necessary.
- 5) Use only a blue or a black pen.

SECTION A: ALL QUESTIONS ARE COMPULSORY /55MARKS

1. Give any six factors of consumption level in any economy. **(6marks)**

2. Define the following concepts:

a) Demand pull inflation.

(2marks)

b) Disinflation.

(2marks)

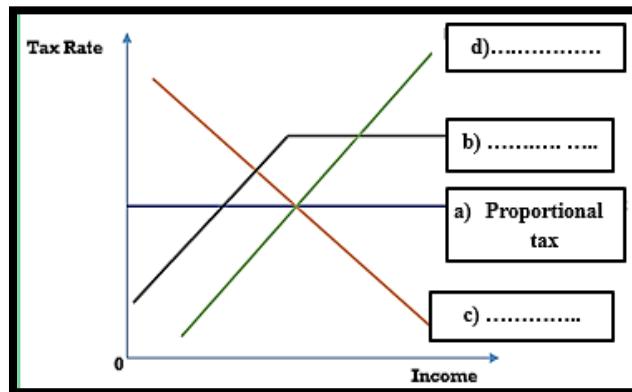
3. What do you mean by:

(4marks)

a) Disguised Unemployment.

b) Natural rate of unemployment.

4. From the figure below complete the missing terms (3marks)



5. By using a diagram, illustrate the demand curve of a firm operating under oligopoly market. **(5marks)**

6. With the help of a graph, illustrate the short run relationship between

unemployment and inflation

(5marks)

7. Explain why trade unions may demand higher wages.

(6marks)

8. i) Given the following information: (In Million)

$$NNP_{MP} = 3200 \text{ Frw}$$

$$NFIA \text{ (Net Factor Income from Abroad)} = 200 \text{ Rwf}$$

$$\text{Consumption of fixed capital} = 1000 \text{ Frw}$$

$$\text{Indirect taxes} = 500 \text{ Frw}$$

Subsidies = 300 Frw

Calculate GDP_{FC}

(3marks)

9. Study the information in the table below and answer the question that follows:

Items	Average consumption	Base year prices (2020)	Current year prices (2022)	Weights
Cooking oil	15	1500	2000	3
Sugar	12	700	750	5
Maize	27	350	450	6
Soap	20	400	300	2

a) From the data above calculate the average price index for the year 2022.

(7marks)

b) Interpret your answer on a) above.

(1mark)

10. Given that the final deposit is 80,000 Frw, and cash ratio is 20%,

a) Find out money/credit multiplier.

(2marks)

b) Find initial deposit from which the total deposit was created.

(2marks)

11. Examine the factors that influence the money supply in the economy

(7marks)

SECTION B: ATTEMPT ONLY ANY THREE QUESTIONS OF YOUR CHOICE / (45MARKS)

12. a) Making a national budget is not a simple process, since different sectors, regions, departments of the national economy that have to be involved have different problems and needs. Identify the problems that can make budgeting process difficult.

(6marks)

b) What do you mean by development expenditure?

(2 marks)

c) How can the government reduce public expenditure? **(7marks)**

13. a) Monopolistic competition market is normally regarded as being “better” than monopoly. Defend this statement. **(6marks)**

b) Criticize the kinked demand curve theory of oligopoly market. **(9marks)**

14.a) Explain the importance of national income figures in an economy.

(5marks)

b) Judge the income per capita as an indicator of economic wellbeing

(10 marks)

15. a) Through taxation Government collects revenue. Explain any two ways it can also achieve the welfare objective through taxation. **(5marks)**

b) The government of Rwanda in its attempt to ensure further development in the country continues to tax the citizens so as to raise the funds, but the tax revenues continuous to decrease sharply due to narrow tax base and low taxable capacity. Advise the government on how to increase the taxable capacity and expand tax base to get more tax revenues. **(10 marks)**

16. One of the problems faced by developing countries to ensure a sustainable development is high population increase. As economics student, suggest the measures that could be taken to solve the negative impacts of high population number in your country. **(15marks)**

END

ECONOMICS END TERM THREE EXAMINATION S5

MARKING GUIDE

In general, the consumption level depends of the following factors: **(6marks)**

- Disposable income.
- Costs and availability of credit and high purchase ability.
- Level of liquidity preference.
- High inflation rate
- Existing of stock of durable commodities.
- Low interest rates encourage borrowing.

2. a) Demand-Pull Inflation: Inflation, which arises due to various factors like rising income, exploding population, etc., leads to aggregate demand and exceeds aggregated supply, and tends to raise prices of goods and services.

Excess Demand Inflation is another name.

b) **Disinflation:** This refers to a decrease in the rate of inflation. **(2marks)**

3. a) Disguised Unemployment: This is where the marginal product of labour is zero and one can be removed from work without affecting total output. When more workers are engaged in a work than actually required to work, it is called **disguised unemployment**. **(2marks)**

b) Natural rate of unemployment:

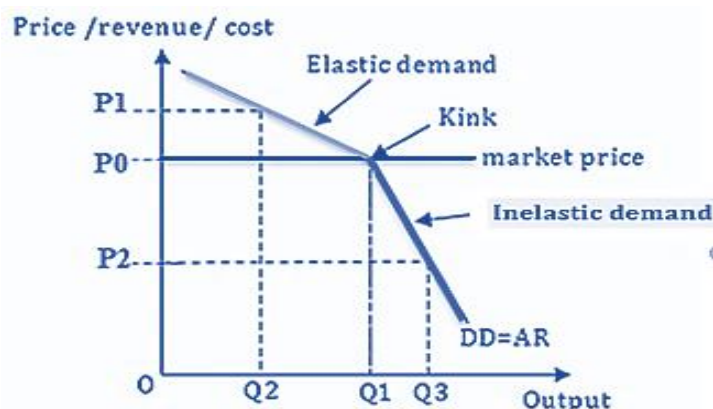
This is the normal rate of unemployment around which the unemployment rate fluctuates. **(2marks)**

4. D) Progressive tax. **(1mark)**

B) Digressive tax or De-regressive tax **(1mark)**

C) Regressive tax. **(1mark)**

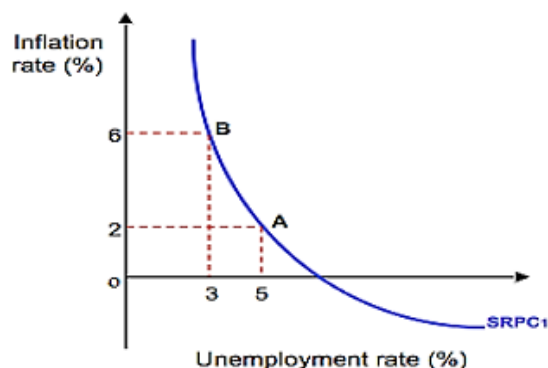
5. Under oligopoly the firms face a kinked demand curve as shown below:



(4marks)

- ❖ Price P_0 is the registered price determined by the low cost firm. When a single firm increases the price from P_0 to P_1 , it will lose its market share since other firms within the industry shall ignore its action. (1mark)
 - ❖ But when a single firm reduces price from P_0 to P_2 , the other firms will do the same because they fear to lose their customers. (1mark)
- Therefore, by scrapping off the up portion of the industry's demand and the lower portion of the single firm's demand curve, we remain with a kinked demand curve. (1mark)

6. A graph which depicts the relationship between inflation and unemployment is called "**Phillips curve**" (1mark)



3marks)

(Curve=

Fig: Short run Phillips curve

The Phillips curve shows the inverse trade-off between inflation and unemployment. As one increases, the other must decrease.
(1mark)

7. Some of the reasons put forward by trade unions when demanding for wage increment include the following:

- **Increase in the cost of living.** When the cost of living has gone up, trade unions may ask for wage increase for their members to meet the increased cost of living.
- **High profits earned by the employers.** When the firm has got high returns, trade unions may ask for high wage to share the increased profits with the employers.
- **When the productivity of labour has increased.** When labour efficiency increases, trade unions may ask for increased wage to compensate the efforts made by the workers.
- **Comparative wage rate.** Trade union may ask for high wage after observing that workers elsewhere in similar sectors are earning higher than their members.
- **Increased skills of workers due to training.** When workers have achieved high levels of education, they ask for an increased wage which fits into the new education qualifications.
- **Overtime work.** When the number of working hours has increased, workers through their trade unions may ask for high wage.
- **Changing in working conditions.** Trade unions whose members work in risky areas demand for high wage on their behalf as a compensation on putting their lives under dangers.
- **Experience.** When members have got seniority, trade unions can help them to demand for wage increment

8. **(3marks)**

$$GDP_{FC} = GDP_{MP} - IT + S$$

(1mark)

$$= (NNP_{MP} + \text{Consumption of fixed capital} - \text{Net export}) - \text{Indirect tax} + \text{Savings.}$$

(1mark)

$$= (3200 + 1000 - 200) - 500 + 300$$

$$= 4000 - 500 + 300$$

$$GDP_{fc} = 3800 \text{ million Frw} \quad \mathbf{(1mark)}$$

9.a) Calculating the price relative for each commodity i.e. the percentage change in prices between the base year and the current year.

$$\mathbf{PR} = \left(\frac{P_{2022} - P_{2020}}{P_{2020}} \times 100 \right) + 100 \text{ or } PR = \frac{P_{2022}}{P_{2020}} \times 100$$

$$\begin{aligned} \text{PR cooking oil} &= \left(\frac{2000 - 1500}{1500} \times 100 \right) + 100 \\ &= 133.30\% \end{aligned}$$

$$\begin{aligned} \text{PR for sugar} &= \frac{750 - 700}{700} \times 100 \\ &= \mathbf{107.14\%} \end{aligned}$$

$$\begin{aligned} \text{PR for maize} &= \left(\frac{450 - 350}{350} \times 100 \right) + 100 \\ &= \mathbf{128.58\%} \end{aligned}$$

$$\begin{aligned} \text{PR for soap} &= \left(\frac{300}{400} \times 100 \right) + 100 \\ &= \mathbf{75\%} \end{aligned}$$

$$\mathbf{APR} = \frac{133.3 + 107.14 + 128.57 + 75}{4}$$

$$= \frac{444.01}{4} = \mathbf{111\%}$$

(7marks)

There is a net increase of 11% in 2022 as compared to 2020 from 100% to 111%. **(1mark)**

$$\mathbf{10. a) \text{ Money multiplier / credit multiplier} = \frac{1}{\text{Cash ratio}} \quad \mathbf{(1mark)}}$$

$$\frac{1}{20\%} = 5$$

$$\text{Money multiplier / credit multiplier} = \mathbf{5} \quad \mathbf{(1mark)}$$

b) Initial deposit

$$= \frac{\text{Total deposit}}{\text{Credit multiplier}} = \frac{80,000}{5} = 16,000$$

(2marks)

11. The factors that influence the money supply in the economy:

- **Printing of more money by the ministry authority:** Example when the government runs the short of money, more money can be printed
 - **Government borrowing from the central bank:** This also implies printing of more money since the central bank has no money to lend.
 - **When the central buys securities** (Example: bonds and treasury bills) from the public, money to supply increases, when it sells securities to the public, money supply is reduced.
 - **Balance of payments surplus:** when export exceed imports, the surplus foreign exchange earned can be exchanged for the local currency such money circulates in the economy and leads to increased money supply.
 - **Foreign capital inflow:** Example by tourists who exchange foreign exchange into local currency to spend during their stay (Journey) in the country.
 - **The level of monetization:** A large subsistence sector reduces money supply while a large commercial economy increases money supply.
 - **The size of national income:** If the GDP is big, the size of money supply will also be large and if GDP is small, the size of money supply will be small.
 - **Credit creation by commercial banks:** This leads also to the increase in money supply, Etc
- (1mark
x7= 7marks)**

12. a) **Some of the problems which can hinder the budgeting process are the following:**

- Inadequate skilled personal
- Development oriented deficit budgets are inflationary
- Corruption
- Inconsistency in policy due to change in government
- Political instability
- Change in foreign policy
- Change in exchange rates
- Natural *hazards* and emergencies. **(1markx6= 6marks)**

b) **Development expenditure** refers to the expenditure made to finance development projects in the country e.g. Infrastructure development like roads, electricity, communication lines, industries, schools among others.

(2marks)

c) Ways of reducing government expenditure

- **Privatization.** Transferring government assets to the hands of the private individuals.
- **Acquiring concessional loans** i.e. those with a low interest rate and long period of payment.
- **Reduction in the privileges** given to government allowances like unnecessary allowances.
- **Controlling population growth rate** and this will reduce expenditure on social services.
- **Ensuring peace and stability** in the country to reduce expenditure on defense.
- **Merging of some ministries** and departments so as to reduce expenditure on a single ministry.
- **Introduction of cost sharing** for public services like education, health etc.
- **Demobilization of soldiers** and retrenchment of civil servants to reduce government expenditures on salaries and allowances.

- Encourage investment to increase production levels.

Any 7 points each 1mark. (7marks)

13 a) **Monopoly** is a market situation where there is one producer or supplier of a product, which has no close substitutes and entry into the market is highly blocked.
(1mark)

Monopolistic competition market is a market structure in which a large number of firms sell differentiated products with close substitutes. Product differentiation may be in form of packing, design, quality, branding, advertising, blending, giving credit, etc.
(1mark)

Monopolistic competition market is normally regarded as being “better” than monopoly, because of the following reasons:

- Unlike under monopoly, under monopolistic competition market Consumers have a variety of choice because of product differentiation.
- Under monopolistic Competition, there is competition that leads to improvement in quality of products which is lacking under monopoly.
- Under monopolistic competition, consumers are assured of a ready supply because of many firms.
- Consumers tend to enjoy low prices due to competition among producers.
- More output is produced under monopolistic competition than under monopoly because of the many producers.
- In case of one firm collapse, substitutes are available. **(1mark**
x4=4marks)

b) Kinked demand curve theory assumes that if an oligopolistic cuts its prices, competitors will quickly react to this by cutting their own prices in order to prevent losing market share. On the other hand, if one firm raises its price, it is assumed that competitors do not match the price rise, in order to gain market, share at the expense of the first firm.
(3marks)

Critics of the kinked demand curve

The above model can be criticized on 4 main grounds:

- It takes the prevailing price as given; there is no attempt to explain how this prevailing price is determined in the first place. It only helps explain why oligopolists tend to stick with an existing price.
The kinked-demand curve explains price inflexibility but not price itself.
- It makes unrealistic assumptions regarding firms' behaviour in terms of following price increases. It will be seen in the next chapter that there may be good reasons for following a price increase as well as following a decrease.
- Empirical evidence does not generally support the model. As mentioned above, in reality firms tend to follow price increases just as much as they follow price reductions.
- When the macro-economy is unstable, oligopoly prices are not as rigid as the kinked-demand theory implies. During inflationary periods, many oligopolists have raised their prices often and substantially.

In spite of the above shortcomings, the kinked demand curve model remains a popular approach to analysing oligopolistic behaviour. **(2marks x3=**

6marks)

14.a) Followings are the points which shows the importance of national income accounting: **(8marks)**

- National income data is essential in national development planning and budgeting.
- They show the patterns of expenditure by the private sector and government.
- National income figures are used to attract foreign investment in the economy
- National income figures are used to solicit for foreign aid or loan.

National income figures are used:

- To see the rate of the economic development of the country over a period of time.
- To assess the developmental objectives
- To compare the standards of living between countries
- To know the contribution of the various sectors to National Income
- To measure the level of dependence of one country on the other countries
- National income figures are an indicator of the rate of resource utilization within the economy.
- To show the pattern of income distribution within the economy.
- National income data forms the basis of national policies such as employment, population growth and economic growth.

b) Is true that income per capita has been criticized of not being a good indicator of economic wellbeing due to some of the following reasons:

- Per capita income **does not take into account the distribution of income**
- Per capita income **does not take into account the patterns of goods produced either capital or consumer goods.**
- Per capita income **does not take into account the amount of leisure.** It may be high while the people do not have leisure.
- Per capita income **does not consider the working conditions** of the people.
- Per capita income **does not consider the level of subsistence sector.**
- Per capita income does not take into account the level of prices. **(1mark x7=7marks)**

15.a) **Taxation** is a process of collecting tax revenue from different sources to be used by the government in the development of the economy. **(1mark)**

A part from collecting revenue, government can also achieve welfare objectives in the following ways, among others:

- By raising excise duty on harmful products like cigarettes will make them more expensive and thus discourages their consumers and reduction in negative impact on their health hence their rising welfare.
- Raising income tax for higher income earners will reduce the gap between poor and rich people, thus reduction of income inequality.
- The extra revenue levied from the higher revenue earners could be spent on health, education and on other welfare of people enhancing the schemes to improve the welfare of the poor.

(2marks

x2= 4marks)

b) I can advise the government to apply the following policies so as to raise more revenues

- Improvement in administrative machinery, which will help to minimise the rates of tax evasion and avoidance hence increase tax revenue.
- Encourage income generating activities especially in rural areas.
- Providing adequate facilities to ease the process of tax collection e.g. transport, computers.
- Tax diversity. New taxes have to be introduced.
- Improving economic activities like in the manufacturing
- Adopting a tax payer friendly system where the tax payers can freely pay at their time of convenience without pressure from the tax authority
- Reduction on the grace period like tax holidays and exemptions given to investors. This will as well increase the tax base of the country.
- Reviewing the existing tax structure, policies and programs so that they are in line with the required targets.

(2marks X

5= 10marks)

**16. Proposed measures to control population growth:
(15marks)**

- Introducing sex education in the school curriculum to educate the youths/ teenagers about the dangers of early sex which normally results into unwanted pregnancies which increases birth rate.
 - Encouraging family planning which includes the use of contraceptives.
 - Promoting girl child education since educated people produce few children because of different reasons.
 - Discouraging early marriage by raising the age of consent and punishing those who break the law.
 - Legalize abortion to prevent unwanted pregnancies where marriage laws are difficult to enforce.
 - Encouraging international migrations so that people can move to different countries
 - Setting up institutions to encourage population control e.g. family planning clinics, hospitals etc.
 - More campaigns to discourage polygamy which results into high birth rates
 - Improve health facilities to reduce infant mortality rates to assure parents that the few children produced will survive.
-
- Reducing the demand for children by reducing their incentives like free education and bursaries. Etc.
 - Rural development programs e.g. modernization of agriculture and establishing socio- economic infrastructure.
 - Use of coercive measures e.g. fines, penalties, jail sentences or sterilization of men who break population laws.
 - Increasing government expenditure so as to increase productivity such that economic growth copes with population growth.
 - Encouraging social mobility among women by taking up formal jobs.
 - Provision of social and economic incentives to small families as a means of discouraging people from having large families e.g. giving free child education to the first 2 children in a family, housing and free medical facilities to such families.
 - Economic disincentives are instituted on large families' e.g. denial of free education, medical care, high taxes on such families etc.
 - Encouraging internal migrations from areas of dense population to sparsely populated areas.
 - Massive sensitization to the public by the government and non-government organization about the dangers of high population growth rate and consequences of many children.

END

ECONOMICS

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END OF TERM III EXAMINATIONS 2021-2022

GRADE / LEVEL:	S5
OPTION /	- HISTORY –ECONOMICS –GEOGRAPHY(HEG)
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DURATION:3HOURS

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- **SECTION A:** Attempt all questions (55marks)
- **SECTION B:** Attempt any Three questions (45marks)
- Give explanations and relevant examples where necessary.
- Use only a blue or a black pen.

SECTION A: ALL QUESTIONS ARE COMPULSRY /55MARKS

1. Give any six factors of consumption level in any economy. **(6marks)**

2. Define the following concepts:

a) Demand pull inflation.

(2marks)

b) Disinflation.

(2marks)

3. What do you mean by:

(4marks)

a) Disguised Unemployment.

b) Natural rate of unemployment.

4. Classify the following into indirect or direct tax.

- Value Added tax(VAT); Excise tax; Land tax; Capital gain tax;
Personal income tax; Expenditure tax.

5. Briefly explain the factors that give rise to monopoly. **(5marks)**

6. Give any causes of demand pull inflation in developing country like Rwanda.

(5marks)

7. Explain why trade unions may demand higher wages.

(6marks)

8. i) Given the following information: (In Million)

$NNP_{MP} = 3200$ Frw

NFIA (**Net Factor Income from Abroad**) = 200Rwf

Consumption of fixed capital= 1000 Frw

Indirect taxes = 500 Frw

Subsidies = 300 Frw

Calculate GDP_{FC}

(3marks)

9. Study the information in the table below and answer the question that follows:

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a) From the data above calculate the average price index for the year 2022.

(7marks)

b) Interpret your answer on a) above.

(1mark)

10. Given that the final deposit is 80,000 Frw, and cash ratio is 20%,

a) Find out money/credit multiplier.

(2marks)

b) Find initial deposit from which the total deposit was created.

(2marks)

11. Examine the factors that influence the money supply in the economy.

(7marks)

SECTION B: ATTEMPT ONLY ANY THREE QUESTIONS OF YOUR CHOICE / (45MARKS).

12.a) Making a national budget is not a simple process, since different sectors, regions, departments of the national economy that have to be involved have different problems and needs. Identify the problems that can make budgeting process difficult.

(6marks)

b) What do you mean by development expenditure?

(2 marks)

c) How can the government reduce public expenditure?

(7marks)

13. a) What are the Characteristics of firms under monopolistic competition?

b.) Briefly explain advantages of monopolistic competition.

14.a) Explain the importance of national income figures in an economy.

(5marks)

b) Judge the income per capita as an indicator of economic wellbeing.

(10marks)

15. a) Through taxation Government collects revenue. Explain any two ways it can also achieve the welfare objective through taxation. **(5marks)**

b) The government of Rwanda in its attempt to ensure further development in the country continues to tax the citizens so as to raise the funds, but the tax revenues continuous to decrease sharply due to narrow tax base and low taxable capacity. Advise the government on how to increase the taxable capacity and expand tax base to get more tax revenues.

(10marks)

16. One of the problems faced by developing countries to ensure a sustainable development is high population increase. As economics student, suggest the measures that could be taken to solve the negative impacts of high population number in your country. **(15marks)**

END

ECONOMICS END TERM THREE EXAMINATION S5

MARKING GUIDE

In general, the consumption level depends of the following factors: **(6marks)**

- Disposable income.
- Costs and availability of credit and high purchase ability.
- Level of liquidity preference.
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- Existing of stock of durable commodities.
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Excess Demand Inflation is another name.

b) **Disinflation:** This refers to a decrease in the rate of inflation. **(2marks)**

3. a) Disguised Unemployment: This is where the marginal product of labour is zero and one can be removed from work without affecting total output. When more workers are engaged in a work than actually required to work, it is called **disguised unemployment**. **(2marks)**

b) **Natural rate of unemployment:** This is the normal rate of unemployment around which the unemployment rate fluctuates. **(2marks)**

4. (3marks)

Direct tax	Indirect tax
Land tax	Value Added tax(VAT)
Personal income tax	Excise tax
Capita gain tax	Expenditure tax.

5. Factors that give rise to monopoly:(1mark x5= 5marks)

- Patent rights
- Ownership of strategic raw materials
- Exclusive methods of production.
- Long distances among producers where each producer monopolizes the market in his/her locality.
- Advantages of large-scale production.
- Protectionism
- Take overs and mergers.
- Collective monopoly or collusive monopoly.

6. Causes of demand pull inflation:

- ***Increase in money supply.***
- ***Increase in disposable income.***
- ***Increase in government expenditure.***
- ***Increase in consumption.***
- ***Expansionary monetary policy.***
- ***Deficit financing.***
- ***Increase in population.***

5points x 1mark each = (5marks)

7. Some of the reasons put forward by trade unions when demanding for wage increment include the following:

- **Increase in the cost of living.** When the cost of living has gone up, trade unions may ask for wage increase for their members to meet the increased cost of living.
- **High profits earned by the employers.** When the firm has got high returns, trade unions may ask for high wage to share the increased profits with the employers.

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- **Changing in working conditions.** Trade unions whose members work in risky areas demand for high wage on their behalf as a compensation on putting their lives under dangers.
- **Experience.** When members have got seniority, trade unions can help them to demand for wage increment **(1markx6=6marks).**

8. (3marks)

$$GDP_{FC} = GDP_{MP} - IT + S \quad (1mark)$$

$$= (NNP_{MP} + \text{Consumption of fixed capital} - \text{Net export}) - \text{Indirect tax} + \text{Savings}.$$

(1mark)

$$= (3200 + 1000 - 200) - 500 + 300$$

$$= 4000 - 500 + 300$$

$$GDP_{fc} = 3800 \text{ million Frw} \quad (1mark)$$

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$$PR = \left(\frac{P_{2022} - P_{2020}}{P_{2020}} \times 100 \right) + 100 \text{ or } PR = \frac{P_{2022}}{P_{2020}} \times 100$$

$$PR \text{ cooking oil} = \left(\frac{2000 - 1500}{1500} \times 100 \right) + 100$$

$$= 133.30\%$$

$$\text{PR for sugar} = \frac{750-700}{700} \times 100 \\ = \mathbf{107.14\%}$$

$$\text{PR for maize} = \left(\frac{450-350}{350} \times 100 \right) + 100 \\ = \mathbf{128.58\%}$$

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$$\mathbf{APR} = \frac{133.3+107.14+128.57+75}{4}$$

$$= \frac{444.01}{4} = \mathbf{111\%}$$

(7marks)

There is a net increase of 11% in 2022 as compared to 2020 from 100% to 111%. **(1mark)**

$$10. \mathbf{a) \text{ Money multiplier /credit multiplier} = \frac{1}{\text{Cash ratio}} \text{ (1mark)}}$$

$$\frac{1}{20\%} = 5$$

$$\text{Money multiplier /credit multiplier} = \mathbf{5} \quad \mathbf{(1mark)}$$

b) Initial deposit

$$= \frac{\text{Total deposit}}{\text{Credit multiplier}} = \frac{80,000}{5} = 16,000$$

(2marks)

11. **The factors that influence the money supply in the economy:**

-- **Printing of more money by the ministry authority:** Example when the government runs the short of money, more money can be printed

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 - **The level of monetization:** A large subsistence sector reduces money supply while a large commercial economy increases money supply.
 - **The size of national income:** If the GDP is big, the size of money supply will also be large and if GDP is small, the size of money supply will be small.
 - **Credit creation by commercial banks:** This leads also to the increase in money supply, Etc (1mark
- x7= 7marks)**

12. a) **Some of the problems which can hinder the budgeting process are the following:**

- Inadequate skilled personal
- Development oriented deficit budgets are inflationary
- Corruption
- Inconsistency in policy due to change in government
- Political instability
- Change in foreign policy
- Change in exchange rates
- Natural *hazards* and emergencies. (1markx6= 6marks)

b) **Development expenditure** refers to the expenditure made to finance development projects in the country e.g. Infrastructure development like

roads, electricity, communication lines, industries, schools among others.

(2marks)

c) Ways of reducing government expenditure

- **Privatization.** Transferring government assets to the hands of the private individuals.
- **Acquiring concessional loans** i.e. those with a low interest rate and long period of payment.
- **Reduction in the privileges** given to government allowances like unnecessary allowances.
- **Controlling population growth rate** and this will reduce expenditure on social services.
- **Ensuring peace and stability** in the country to reduce expenditure on defense.
- **Merging of some ministries** and departments so as to reduce expenditure on a single ministry.
- **Introduction of cost sharing** for public services like education, health etc.
- **Demobilization of soldiers** and retrenchment of civil servants to reduce government expenditures on salaries and allowances.
- Encourage investment to increase production levels.

Any 7 points each 1mark. (7marks)

13 a) **Monopoly** is a market situation where there is one producer or supplier of a product, which has no close substitutes and entry into the market is highly blocked. **(1mark).**

13. Monopolistic competition market is a market structure in which a large number of firms sell differentiated products with close substitutes. Product differentiation may be in form of packing, design, quality, branding, advertising, blending, giving credit, etc. There is a need for persuasive advertising in monopolistic competition. Monopolistic competition lies between perfect competition and monopoly. **(3marks)**

a) Characteristics of firms under monopolistic competition

- There are many buyers and several sellers.
- Firms deal in differentiated products although they remain close substitutes.
- There is a lot of persuasive and informative advertising.
- The demand curve is fairly elastic in nature because of the presence of many substitutes.
- There is production at excess capacity, i.e. production less than the required output so as to charge at a high price.
- The firms in the industry are large but none of them dominates the market.
- The major aim is to maximize profits and this is done at a point where marginal revenue is equal to marginal cost ($MRR=MC$)
- Firms are price makers to some extent and price takers to a certain extent.
- There exists brand loyalty, i.e. consumers exercise a lot of loyalty by sticking on a particular commodity believing that a particular brand is superior.

(1mark x6=6marks)

b) Advantages of monopolistic competition

- Product differentiation enables consumers to get a variety of products.
- Firms compete to make improvement in the quality of products to choose from.
- In case one firm collapses, substitutes are available for the consumers.
- The price charged is lower than that of a monopolist because of competition from substitutes.
- The freedom of entry gives a chance to any willing entrepreneur to enter the industry which creates employment opportunities in the country.
- Individual firms gain a lot of popularity due to specialisation in their own brands.
- In the short-run, abnormal profits earned are used to improve on the quality of products; undertake research; and expand the size of the firm. **(1mark x6=6marks)**

14.a) Followings are the points which shows the importance of national income accounting: **(8marks)**

- National income data is essential in national development planning and budgeting.
- They show the patterns of expenditure by the private sector and government.
- National income figures are used to attract foreign investment in the economy
- National income figures are used to solicit for foreign aid or loan.

National income figures are used:

- To see the rate of the economic development of the country over a period of time.
- To assess the developmental objectives
- To compare the standards of living between countries
- To know the contribution of the various sectors to National Income
- To measure the level of dependence of one country on the other countries
- National income figures are an indicator of the rate of resource utilization within the economy.
- To show the pattern of income distribution within the economy.
- National income data forms the basis of national policies such as employment, population growth and economic growth.

b) Is true that income per capita has been criticized of not being a good indicator of economic wellbeing due to some of the following reasons:

- Per capita income **does not take into account the distribution of income**
- Per capita income **does not take into account the patterns of goods produced either capital or consumer goods.**
- Per capita income **does not take into account the amount of leisure.** It may be high while the people do not have leisure.
- Per capita income **does not consider the working conditions** of the people.
- Per capita income **does not consider the level of subsistence sector.**
- Per capita income does not take into account the level of prices. **(1mark x7=7marks)**

15.a) **Taxation** is a process of collecting tax revenue from different sources to be used by the government in the development of the economy. **(1mark)**

A part from collecting revenue, government can also achieve welfare objectives in the following ways, among others:

- By raising excise duty on harmful products like cigarettes will make them more expensive and thus discourages their consumers and reduction in negative impact on their health hence their rising welfare.
- Raising income tax for higher income earners will reduce the gap between poor and rich people, thus reduction of income inequality.
- The extra revenue levied from the higher revenue earners could be spent on health, education and on other welfare of people enhancing the schemes to improve the welfare of the poor.

(2marks

x2= 4marks)

b) I can advise the government to apply the following policies so as to raise more revenues

- Improvement in administrative machinery, which will help to minimise the rates of tax evasion and avoidance hence increase tax revenue.
- Encourage income generating activities especially in rural areas.
- Providing adequate facilities to ease the process of tax collection e.g. transport, computers.
- Tax diversity. New taxes have to be introduced.
- Improving economic activities like in the manufacturing
- Adopting a tax payer friendly system where the tax payers can freely pay at their time of convenience without pressure from the tax authority
- Reduction on the grace period like tax holidays and exemptions given to investors. This will as well increase the tax base of the country.
- Reviewing the existing tax structure, policies and programs so that they are in line with the required targets.

(2marks X

5= 10marks)

**16. Proposed measures to control population growth:
(15marks)**

- Introducing sex education in the school curriculum to educate the youths/ teenagers about the dangers of early sex which normally results into unwanted pregnancies which increases birth rate.
 - Encouraging family planning which includes the use of contraceptives.
 - Promoting girl child education since educated people produce few children because of different reasons.
 - Discouraging early marriage by raising the age of consent and punishing those who break the law.
 - Legalize abortion to prevent unwanted pregnancies where marriage laws are difficult to enforce.
 - Encouraging international migrations so that people can move to different countries
 - Setting up institutions to encourage population control e.g. family planning clinics, hospitals etc.
 - More campaigns to discourage polygamy which results into high birth rates
 - Improve health facilities to reduce infant mortality rates to assure parents that the few children produced will survive.
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- Reducing the demand for children by reducing their incentives like free education and bursaries. Etc.
 - Rural development programs e.g. modernization of agriculture and establishing socio- economic infrastructure.
 - Use of coercive measures e.g. fines, penalties, jail sentences or sterilization of men who break population laws.
 - Increasing government expenditure so as to increase productivity such that economic growth copes with population growth.
 - Encouraging social mobility among women by taking up formal jobs.
 - Provision of social and economic incentives to small families as a means of discouraging people from having large families e.g. giving free child education to the first 2 children in a family, housing and free medical facilities to such families.
 - Economic disincentives are instituted on large families' e.g. denial of free education, medical care, high taxes on such families etc.
 - Encouraging internal migrations from areas of dense population to sparsely populated areas.
 - Massive sensitization to the public by the government and non-government organization about the dangers of high population growth rate and consequences of many children.

END