

ECONOMICS

Date : 13 June 2024

Period : 8H30-11H30



END OF TERM III EXAMINATION QUESTION PAPER

GRADE: SENIOR FIVE (S5)

LEVEL: ADVANCED

OPTION: MEG & MCE

DURATION: 3 HOURS

MARKS:

..... /100

CAMIS:

..... /70

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

SECTION A : ALL QUESTIONS ARE COMPULSORY. (55MARKS)

1) Choose the best answers.

(5 marks)

i. Which of the following best describes a characteristic of perfect competition market?

- a) Many buyers and sellers
- b) Homogeneous products
- c) Significant barriers to entry
- d) Price determined solely by individual sellers

ii. What is the primary downside of a monopoly from a societal perspective?

- a) Limited innovation
- b) Increased consumer choice
- c) Lower prices
- d) Greater market efficiency

iii. What is a key feature of the long-run equilibrium in a perfectly competitive market?

- a) Firms earn economic profit
- b) Price exceeds average total cost
- c) Firms operate at minimum efficient scale
- d) Excess capacity exists in the industry

iv. What happens to a firm in the long run if it is earning economic profit in a perfectly competitive market?

- a) It exits the market
- b) It increases production
- c) It decreases output to maintain profit levels
- d) It attracts new competitors, reducing profit to zero

v. Which statement best reflects the role of individual firms in a perfectly competitive market?

- a) Firms have significant control over market prices
- b) Firms can differentiate their products to gain market power
- b) Firms are price takers, accepting the market price as given.
- d) Firms can influence market demand through advertising

2) Choose the appropriate words or concepts to fill in the blanks to complete the given statements. (4 marks)

Words : **proportional tax; Tax mitigation, disposable income; Taxation,**

- i) In Rwanda the body responsible for the process of is called "Rwanda Revenue Authority".
- ii) Tax avoidance also called refers to the exploitation of the loopholes by the tax payer to pay less or no tax at all.
- iii) The taxes levied on individuals' or companies' incomes is of thetype.
- iv) The tax system where the tax rate is the same for all income levels is called

3) Match the financial institution in the left column with its corresponding description/function in the right column. (5 marks)

Financial institutions	Description/function
i) Commercial bank	a) Regulates the money supply and oversees monetary policy.
ii) Investment bank	b) Facilitates the buying and selling of securities in financial markets.
iii) Central bank	c) Accepts deposits from customers and provides loans.
iv) Stock exchange	d) Provides financial services to consumers and businesses.
v) Financial company	e) Acts as an intermediary in securities offerings

4) Choose the best answer. (5 marks)

i. Which one of the indece can be best used to measure the rate of inflation in Rwanda ?

- a) Producer Price Index (PPI)
- b) Retail Price Index (RPI)
- c) Consumer Price Index (CPI)
- d) Wholesale Price Index (WPI)

- ii. The Consumer Price Index (CPI) is often used to adjust:
 - a) Corporate profits
 - b) Social security benefits
 - c) Stock market indices
 - d) Interest rates

- iii. Which index is used to adjust nominal GDP for changes in price level?
 - a) Consumer Price Index (CPI)
 - b) Producer Price Index (PPI)
 - c) Gross Domestic Product (GDP) Deflator
 - d) Retail Price Index (RPI)

- iv. When calculating a price index, what is typically used as the base period?
 - a) The most recent period
 - b) The period with the highest prices
 - c) The period with the lowest prices
 - d) A specific historical period for comparison.

- v. For which purpose is a basic year used while calculating price index ?
 - a) Current year comparison
 - b) Historical analysis
 - c) Future predictions
 - d) Currency exchange

- 5)** A developing country P has a high rate of population. The country wants to take different measures to control the population growth without the violation of human rights.

Answer by **True** or **False** if the statement indicates the best measure that can be taken to control population growth. **(4 marks)**

- i. Undertake the population census in order to know the total number of the population, its structure and condition of life in order to plan for economic development accordingly.
- ii. The country can introduce sex and reproductive health education in school curriculum and oblige abortion for each unwanted pregnancy.
- iii. Family planning is an obligation for all couples and the legalized age of marriage at 35 years for both men and women.
- iv. Introduction of massive sensitization to the public by the government and non- government organizations about the dangers of high population growth rate and consequences of many children.

6) What do you understand by :

a) Fiat money. **(3 marks)**

b) Quasi money. **(2 marks)**

7) Complete the statements below with the appropriate terms regarding labour and wage unit.

a) The minimum wage is the wage set above the equilibrium wage while is the wage set below the equilibrium wage. **(1mark)**

b) A wage is a reward to labour as a factor of production for services rendered while a is a fixed reward to labour and it does not change because of time or pieces of work done. **(1mark)**

c) A nonspecific labour is labour that can be transferred from one use to another while a is labour that cannot be changed from one production activity to another. **(1mark).**

d) Demand for labour refers to the number of labourers needed by an employer at a given wage in a given period of time while the for labour refers to the number of hours an individual is willing to offer for work per day, week, month, or year. **(1mark)**

e) Wage freeze is the deliberate government policy of maintaining wages at their current levels so as to control inflation while is the voluntary restriction of wage increase by workers in order to control inflation. **(1mark)**

f) Labour efficiency is the ease which labour can produce good quality and quantity output in the shortest time possible whileis output per unit of labour. **(1mark)**

8) Use hypothetical data showing the level of national income of the country X in closed economy with government intervention and choose the best answers. **(5 Marks)**

$$C=50+0.8Y_d$$

$$T=20\%$$

$$I=100$$

$$G= 30$$

Where C = consumption expenditure

Y_d =Disposable income

I =investment expenditure

G= Government expenditure

i. Find National income equilibrium.

a) 200

b) 600

c) 500

d) 400

ii. What is the value of tax ?

a) 50

b) 100

c) 150

d) 200

iii. What is the value of disposable income ?

a) 200

b) 300

c) 400

d) 500

iv. What is the value of consumption ?

- a) 250
- b) 170
- c) 350
- d) 370

v. What is the value of saving ?

- a) 50
- b) 130
- c) 150
- d) 200

9) How do the following concepts affect consumption?

- a) General Price level. **(2marks)**
- b) Disposable income. **(2marks)**
- c) Population size. **(2marks)**

10) Classify the following debts in their respective types represented in the table. : **internal debt; funded debt; dead weight debt; external debt; self-liquidating debt.** **(5 marks)**

Types of debt		
According to how a debt is going to be paid.	According to the method of payment.	According to the sources of borrowing.

11) Chose the best answer. **(5 marks)**

- i) How does monopoly firm determine the price of its product?
 - a) Based on market demand and supply.
 - b) Through collusion with other firms.
 - c) By maximizing profit at the point where marginal revenue equals marginal cost.
 - d) By following government regulations.

ii) How might the government regulate a monopoly to prevent abuse of market power?

- a) By enforcing price floors
- b) By imposing low taxes on the firm
- c) By subsidizing the firm
- d) Through antitrust laws and regulations

iii) How does consumer surplus typically compare between a monopoly and a perfectly competitive market?

- a) Higher in a monopoly
- b) Lower in a monopoly
- c) Equal in both
- d) Unpredictable

iv) What is a possible consequence of government intervention to break up a monopoly?

- a) Increased market efficiency
- b) Decreased competition
- c) Lower prices for consumers
- d) Higher barriers to entry

v) What is the characteristic feature of a monopoly market structure?

- a) Many buyers and sellers
- b) Identical products
- c) Single seller with significant market power
- d) Perfect information

SECTION B : ATTEMPT OPNLY THREE QUESTIONS OF YOUR CHOICE /45 MARKS.

- 12)** a) What is meant by the term “fiscal policy” ? **(1mark)**
- b) Analyse the role of fiscal policy in regulating the level of economic activities in your country. **(14 marks)**
- 13)** Evaluate the effects economic depression on countries’ economy. **(15marks)**
- 14)** Evaluate the role of the central Bank in the development of a country’s economy. **(15 marks)**
- 15)** The Chief Economist at The Ministry of Finance and Economic Planning said: “The Government of Rwanda is deeply aware that high inflation is imposing significant hardship, damaging budgets and decreasing what people buy”.
- a) Define the term inflation. **(1 mark)**
- b) Distinguish between stagflation and reflation. **(4 marks)**
- c) Suppose you are appointed as a Senior Adviser to the Minister of Finance and Economic Planning, elaborate policy measures to restore price stability to Rwanda’s economy. **(10marks)**
- 16)** In many developing countries, disparities in living standards between rural and urban areas are large. Many governments around the world actively attempt to discourage internal population movements from rural to urban areas.
- a. What is meant by the term “rural urban migration”? **(1mark)**
- b. Explain negative effects of rural-urban migration to the development of your country. **(7marks)**
- c. Propose policy measures to control rural –urban migration in your country. **(7marks)**

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Use only a blue or a black pen.

1)

i.=b) Homogeneous products.

ii. =a) Limited innovation.

iii.= c) Firms operate at minimum efficient scale.

iv.=d) It attracts new competitors, reducing profit to zero.

v.=c) Firms are price takers, accepting the market price as given.

(1mark x5=5marks)

2) (1mark x4= 4marks)

i)= Taxation

ii) Tax mitigation

iii) Direct tax

iv) Proportional tax.

3) (1mark X5=5marks)

Financial institutions	Description/function
Commercial bank	c) Accepts deposits from customers and provides loans.
Investment bank	e) Acts as an intermediary in securities offerings
Central bank	a) Regulates the money supply and oversees monetary policy.
Stock exchange	b) Facilitates the buying and selling of securities in financial market.
Financial company	c) Provides financial services to consumers and businesses.

4) (1mark X5= 5 marks)

i. = c) Consumer price index. (CPI).

ii. = b) Social security benefits

iii. = c) Gross Domestic Product (GDP) Deflator

iv = d) A specific historical period for comparison.

v = a) Current year comparison

5) (1mark x5=5marks)

- i) Undertake the population census in order to know the total number of the population, its structure and condition of life in order to plan for economic development accordingly. **True**
- ii) The country can introduce sex and reproductive health education in school curriculum and oblige abortion for each unwanted pregnancy. **False**
- iii) Family planning is an obligation for all couples and the legalised age of marriage at 35 years for both men and women. **False**
- iv) Introduction of massive sensitisation to the public by the government and non-government organisation about the dangers of high population growth rate and consequences of many children. **True**

6) a) Fiat money: This is any paper money that is not backed by any commodity, but it is accepted as legal tender. **(3 marks)**

b) Quasi money: This is also called **near money**. A liquid asset that cannot be used as a medium of exchange itself, but which can be easily and cheaply converted into money. **(2 marks)**

7) Complete the statements below with the appropriate terms regarding labour and wage unit.

a) The minimum wage is the wage set above the equilibrium wage while **maximum wage** is the wage set below the equilibrium wage. **(2 marks)**

b) A wage is a reward to labour as a factor of production for services rendered while a **salary** is a fixed reward to labour and it does not change because of time or pieces of work done. **(1 mark)**

c) A nonspecific labour is labour that can be transferred from one use to another while a **specific labour** is labour that cannot be changed from one production activity to another. **(1 mark).**

d) Demand for labour refers to the number of labourers needed by an employer at a given wage in a given period of time while the **supply** of labour refers to the number of hours an individual is willing to offer for work per day, week, month, or year. **(1 mark)**

e) Wage freeze is the deliberate government policy of maintaining wages at their current levels so as to control inflation while **wage restraint** is the voluntary restriction of wage increase by workers in order to control inflation. **(1mark)**

f) Labour efficiency is the ease which labour can produce good quality and quantity output in the shortest time possible while **labour productivity** is output per unit of labour.

(1mark)

8) (1mark x5= 5marks)

- i. c) 500
- ii. b) 100
- iii. c) 400
- iv. d) 370
- v. b)130

9) How do the Following affect consumption ?

- **General Price level** : The higher the price, the lower the demand and consumption ; and the lower the price the higher the demand and consumption. **(2marks)**
- **Disposable income**: The higher the disposable income, the higher the consumption; and the lower the disposable income the lower the consumption. **(2marks)**
- **Population size**: The bigger the population size the higher the consumption; and the smaller the population the lower the consumption. **(2marks)**

10) (1mark x5= 5marks)

Types of debt		
According to how a debt is going to be used.	According to the method of payment	. According to the sources of borrowing
Dead weight debt	Funded debt.	Internal debt
Self-liquidating date.		External debt

11) 1mark x5=5marks

- i.= c) By maximizing profit at the point where marginal revenue equals marginal cost
- ii. d) = Through antitrust laws and regulations
- iii.= b) Lower in a monopoly
- iii.= b) Lower in a monopoly
- iv.= a) Increased market efficiency
- v. = c) Single seller with significant market power

SECTION B:

12) a. **Fiscal policy** refers to the deliberate use of taxation, borrowing and government expenditure to regulate the level of economic activities or stabilise development **(1mark)**

b. **The role of fiscal policy in regulating the level of economic activities in an economy:** **(1mark x7=7marks)**

- **Fiscal policy can influence economic activity through government spending.** Increased government spending on infrastructure, education, healthcare, and other sectors can stimulate economic growth by creating demand for goods and services.

Tax policy is a significant tool in fiscal policy. By adjusting tax rates, the government can influence disposable income, consumption, and investment decisions of households and businesses. For instance, reducing taxes can boost consumer spending and business investment, thus stimulating economic activity.

- **Fiscal policy can affect economic activity through the management of budget deficits or surpluses.** During economic downturns, governments may intentionally run deficits to stimulate demand and support economic recovery. Conversely, during periods of economic expansion, governments may aim for budget surpluses to prevent overheating and inflation.

- **Fiscal policy involves managing public debt levels.** High levels of public debt can crowd out private investment, leading to higher interest rates and reduced economic activity. Therefore, fiscal policy aims to ensure sustainable levels of public debt to maintain economic stability.

- **Fiscal policy can be used to redistribute income and wealth through progressive taxation and social welfare programs.** By redistributing income from higher-income individuals to lower-income individuals, fiscal policy can help reduce inequality and stimulate aggregate demand, thus affecting economic activity.

- **Fiscal policy includes automatic stabilizers** such as unemployment benefits and progressive taxation, which automatically adjust during economic downturns or upturns. These stabilizers help stabilize disposable income and aggregate demand, cushioning the economy from extreme fluctuations.

- **Fiscal policy involves strategic investments** in infrastructure projects such as transportation, communication, and energy systems. These investments not only create jobs and stimulate economic activity in the short term but also enhance productivity and competitiveness in the long run.

- **Fiscal policy can support human capital development** through investments in education and training programs. A skilled workforce improves productivity and innovation, leading to higher economic growth and competitiveness.
- **Governments may use fiscal policy to support specific industries** or sectors deemed vital for economic growth or national security. This support can be in the form of subsidies, tax incentives, or targeted investment programs.
- **Fiscal policy** is instrumental in implementing counter-cyclical measures to mitigate the impact of economic cycles.
- During recessions, governments may increase spending and reduce taxes to boost demand and stimulate economic activity. Conversely, during periods of overheating or inflationary pressures, **fiscal policy** may focus on austerity measures to cool down the economy.

However, fiscal policies can hamper economic activities in the following ways: (1mark x7=7marks)

- If much of the extra money from **fiscal actions** (such as government spending or tax cuts) goes to people who are more likely to save their money rather than spend it, then the overall effect on the economy will be contractionary. This is because when people save more of their income, they are not putting as much money back into the economy through consumption, which can slow down economic growth.
- **In anti-depression fiscal policy**, increasing public spending and reducing taxes are crucial components. However, if the changes in injections or withdrawals from the economy are not in line with what is needed, the system may not move in the intended direction, leading to increased instability in the economy.
- **Crowding out private investment:** Increased government spending can lead to Inflation: If fiscal policy is too expansionary, it can lead to inflation as demand outstrips supply in the economy. higher interest rates, which may discourage private investment and economic growth.
- **Budget deficits and debt:** Excessive government spending can lead to budget deficits and a growing national debt, which may have long-term negative consequences for the economy.
- **Misallocation of resources:** Government spending may not always be directed towards the most productive uses, leading to inefficiencies in the allocation of resources.
- **The compensatory fiscal policies** of the government may discourage private investment, since the private entrepreneurs must face competition from public enterprises in securing labour, raw materials, and finances. This means that when the government increases its

spending on public services and projects, it can lead to a decrease in private spending by individuals and businesses because the government may be taking up a larger share of the available resources, leaving less for private entities to invest or spend.

- **In case a balanced budget as a tool of fiscal policy** is used during an economic depression, and the recipients have a lower propensity to spend than the taxpayers, then fiscal programs under a balanced budget will lead to a decrease in national income.

- **If the tax measures are stringent and too high**, they will certainly affect the incentive to work thus causing unemployment.

- **The use of fiscal instruments** during unemployment and depression is often associated with the subsequent problem of debt management. Because deficit budgeting is the normal fiscal cure, public debt is made for financing it. And if the process of recovery from depression is long, the creation of budget deficit year after year will create a huge problem of debt repayment and debt management.

Large deficit programs financed by borrowings bring about adverse psychological reactions. Allegations of government bankruptcy discourage investors and often flight of capital takes place.

- The creation of additional income through compensatory **fiscal measures** is not easily possible in most of the underdeveloped countries mainly because they are largely reliant on an agricultural sector that is not growing, resulting in a high propensity for people to spend their income on consumption rather than saving leading to a limited surplus available for sale on the market.

- In a democracy, **implementing fiscal policy measures** takes a significant amount of time. This is because legislative actions, administrative tasks, and the executive processes involved in making these decisions often face delays. As a result, the initial estimates of how much revenue the government will earn and how much it will spend can become outdated or no longer accurate hence hindering economic growth progress.

13) An economic depression is a severe and prolonged downturn in economic activity characterized by a significant decline in GDP (Gross Domestic Product), widespread unemployment, reduced consumer spending, declining business investment, and overall economic hardship.

(1mark)

Economic depressions are generally considered detrimental to the economy and society as a whole due to their severe and prolonged negative impacts. However, in some cases, certain positive effects or outcomes may arise as a result of economic depressions.

Positive effects that could occur during or after an economic depression:(**1mark x7=7marks**)

- **Innovation and technological advancement:** Economic downturns can drive innovation as businesses seek more efficient and cost-effective solutions to survive, leading to technological advancements that may benefit society in the long run.
- Financial practices, which can contribute to greater financial stability in the long term.
- **Innovation and technological advancement:** Economic downturns can drive innovation as businesses seek more efficient and cost-effective solutions to survive, leading to technological advancements that may benefit society in the long run.
- **Increased savings:** During periods of economic uncertainty, individuals and businesses may increase their savings and adopt more conservative financial practices, which can contribute to greater financial stability in the long term.
- **Reduced environmental impact:** Economic depressions often result in reduced industrial activity and consumption, leading to lower emissions and environmental impacts in the short term.
- **Opportunities for entrepreneurship:** Economic downturns may create opportunities for new businesses to emerge, as entrepreneurs identify unmet needs and develop innovative solutions to address them.
- **Realignment of industries:** Depressions can lead to the realignment of industries, with less efficient or outdated sectors shrinking while more dynamic and competitive sectors emerge, potentially fostering long-term economic growth.
- **Increased focus on sustainability:** Economic crises may prompt businesses and policymakers to prioritize sustainability initiatives and environmentally friendly practices as part of efforts to rebuild and create a more resilient economy.
- **Labor market flexibility:** Depressions can lead to increased flexibility in labor markets, as employers may be more willing to experiment with alternative work arrangements and employment models.
- **Improving of economic policies:** Economic depressions often prompt policymakers to reevaluate existing economic policies and institutions, potentially leading to reforms aimed at improving long- term economic stability and resilience.
- **Greater community cohesion:** Economic hardships can foster a sense of solidarity and mutual support within communities, leading to increased collaboration and resilience at the local level.
- **Increased focus on mental health and well-being:** Economic depressions may raise awareness of mental health issues and prompt individuals and organizations to prioritize mental health and well-being initiatives.

- **Emphasis on sustainable consumption:** Depressions can lead to a shift towards more sustainable and responsible consumption patterns as consumers become more mindful of their purchasing decisions and environmental impacts.
- **Renewed emphasis on education and skills development:** Economic downturns may prompt individuals to invest in education and skills development to enhance their employability and adapt to changing economic conditions.
- Provide opportunities for individuals and businesses to renegotiate debt terms and restructure their finances, potentially reducing financial burdens in the long term.
- **Political and institutional reforms:** Economic crises can create momentum for political and institutional reforms aimed at addressing systemic weaknesses and improving governance, transparency, and accountability.

While these potential positive effects may emerge during or after an economic depression, it's essential to recognize that they are often accompanied by significant challenges and hardships. Economic depressions are severe and prolonged downturns in economic activity that can have far-reaching negative effects on individuals, businesses, and society as a whole. **Negative effects commonly associated with economic depressions:(1mark x 7=7 marks)**

- **High unemployment:** Economic depressions typically result in soaring unemployment rates as businesses reduce their workforce or shut down altogether, leading to widespread job loss and financial insecurity for individuals and families.
- **Decline in GDP:** Depressions are characterized by a significant contraction in Gross Domestic Product (GDP), indicating a decrease in overall economic output, production, and consumption.
- **Business bankruptcies:** Many businesses may be unable to survive during a depression due to reduced consumer spending, tight credit conditions, and declining demand, leading to widespread bankruptcies and closures.
- **Financial distress:** Economic depressions can lead to widespread financial distress among individuals and households, as they struggle to meet their financial obligations, including mortgage payments, loan repayments, and utility bills.
- **Reduced consumer spending:** During a depression, consumer confidence tends to plummet, leading to a sharp decline in consumer spending on goods and services, further exacerbating economic contraction and prolonging the downturn.
- **Deflation:** Depressions often result in deflationary pressures, where prices of goods and services decline due to weak demand, excess capacity, and a lack of pricing power among businesses, leading to falling wages and profits.

- **Bank failures and financial crises:** Economic depressions can trigger widespread bank failures and financial crises as banks experience rising loan defaults, liquidity shortages, and capital depletion, leading to a loss of confidence in the financial system.
- **Poverty and homelessness:** Economic depressions can push many individuals and families into poverty and homelessness as they struggle to afford basic necessities such as food, shelter, and healthcare.
- **Social unrest and political instability:** Economic depressions often fuel social unrest and political instability as individuals and groups express frustration and anger over deteriorating living conditions, rising inequality, and perceived government failures.
- **Health impacts:** Economic depressions can have adverse health impacts, including increased stress, anxiety, depression, and substance abuse, as individuals grapple with financial insecurity, job loss, and social dislocation.
- **Reduction in investment and innovation:** Depressions typically lead to a decline in business investment and innovation as firms cut costs, scale back expansion plans, and focus on survival rather than growth and innovation.
- **Long-term economic scarring:** Economic depressions can leave lasting scars on the economy, including lower productivity, reduced potential output, and a loss of human capital, which can hinder economic recovery and future growth.
- **Rise in inequality:** Economic depressions often exacerbate income and wealth inequality as vulnerable groups, such as low-income workers, minorities, and the unemployed, bear the brunt of the economic downturn, while the wealthy may be better able to weather the storm.
- **Negative effects on global economy:** Depressions in one country or region can have negative effects on the global economy through reduced trade, investment, and financial contagion, leading to synchronized downturns and prolonged recessions worldwide.
- **Psychological and emotional toll:** Economic depressions can take a significant psychological and emotional toll on individuals and communities, leading to feelings of despair, hopelessness, and helplessness as they grapple with the challenges of unemployment, poverty, and uncertainty about the future.

14) Evaluate the role of the central Bank in the development of a country's economy. **(15 marks)**

A central bank is a financial institution that is responsible for overseeing the monetary system and policy of a nation or group of nations. It is an institution that manages the currency and monetary policy of a country. In Rwanda, National Bank of Rwanda (NBR) is the central Bank. **(1mark).**

The central bank plays the following developmental and promotional role in the development of a country's economy.

- The central bank **helps the government in the economic planning process**. i.e., it provides the necessary financial economic data which greatly facilitates government in its planning process.
- The central bank through its monetary policy tools, like selective credit control;
- **helps channel credit to the priority** areas aimed at **improving productivity and investment**.
- The central bank **develops the financial sector** e.g., it encourages the development of commercial banks which tend to extend credit to stimulate rural activities for the mobilization of domestic capital required for economic development.
- It **regulates and controls the supply and demand for money** with the objective of attaining high growth rates in GDP adequate employment opportunities, price stability etc.
- Through favourable rate policies aimed at foreign exchange stability, **both the public and private sectors are encouraged to save and invest** thus promoting economic growth and development.
- **Ensures and maintains price stability**, enhances, and maintains a stable and competitive financial system which controls inflation in the economy thus encouraging productive activities in the economy. This promotes employment opportunities, promotes growth and fights BOP problems as well.
- As a banker to commercial banks and other financial institutions, National Bank **facilitates funds transfer and settles interbank transactions** e.g., borrowing from and lending to other banks and customer transactions. This promotes local and international transactions.
- **Debt Management:** The Central Bank undertakes the selling and buying of government bonds and making timely changes in the structure and composition of public debt. This increases investment in government securities that promotes the level of investment and productivity.
- **Credit Control:** Central Bank controls credit in order to influence the patterns of investment and production in an economy. It controls inflationary pressures arising in the process of development. This requires the use of both quantitative and qualitative methods of credit control in order to regulate the level of economic activities.
- **Solving the Balance of Payments Problem:** The central bank manages and controls the foreign exchange of the country and also acts as the technical adviser to the government on foreign exchange policy. It therefore avoids fluctuations in the foreign exchange rates and maintains stability. It does so through exchange controls and variations in the bank rate. For instance, if the value of the national currency continues to fall, it may raise the bank rate and thus encourage the inflow of foreign currencies.
- **Branch Expansion:** In developing countries, the commercial banks generally concentrate their branches in the urban areas. To extend credit facilities to the

agricultural sector, the central bank prepares program for branch expansion in the rural areas. This gives chance to rural people to access such banks for credit and deposit services.

- **Development of Banking Habits:** Through its various credit control instruments (*i.e.*, bank rate, variable cash-reserve ratio, etc.) and by providing discounting facilities to the commercial banks, the central bank exercises full control over the activities of commercial banks. This creates public confidence in the banking system and helps in the development of banking habits of the people.
- **Training Facilities:** A major difficulty in developing the banking system in developing countries is the lack of trained staff. The central bank can provide training facilities to meet the personnel requirements of the banks which increases efficiency in the banking sector.
- **Proper interest rate Structure:** The central bank helps in establishing a suitable interest rate structure to influence the direction of investment in the country. In underdeveloped countries, a policy of low interest rate is necessary for encouraging investment and promoting development activities. Again, by adopting different interest rates, the central bank increases productive investment and discourage unproductive investment.
- **Other Promotional Roles:** The central bank also provides several other promotional facilities. For example, it adopts policies to provide help to the various priority sectors, such as agriculture, cooperative sector, small scale sector, export sector, etc. It provides guidelines to be followed by the planners about some definite patterns of economic and investment policies; and it publishes information regarding the state of the economy and promote research in money and banking all which have positive influence towards the confidence in and economic progress of a developing economy.

Promotes the process of economic growth: The central bank ensures adequate monetary expansion in the country. Moreover, as a banker to the government, the central bank provides funds for initiating investment in the public sector. This increases the volume of productivity thus growth. **(2marks x7= 14marks)**

15) a. Inflation is a situation where there is a persistent rise in the general price level.

(1mark)

b. Stagflation: This refers to the situation where there is coexistence of both inflation and unemployment in an economy. **(2marks) While Reflation** is the deliberate government policy of forcing prices upward to recover the economy from a depression. **(2marks).**

c. In case I were appointed a Senior Adviser to the Minister of Finance and Economic Planning, I would put up the following policy measures to restore price stability in the economy:

- I can work hand in hand with the central bank to adjust monetary policy tools such as interest rates to control inflationary pressures. Increasing interest rates can help reduce inflation by reducing aggregate demand.
- Ensure stability in the exchange rate to minimize imported inflation. This may involve interventions in the foreign exchange market to manage fluctuations in the value of the domestic currency.
- Implement fiscal measures to control government spending and reduce budget deficits. This can include cutting unnecessary expenditures and increasing taxes to reduce aggregate demand in the economy.
- Invest in infrastructure and streamline regulatory processes to improve productivity and supply responsiveness in key sectors. Increasing the supply of goods and services can help alleviate inflationary pressures.
- Consider implementing temporary price controls on essential goods and services to prevent excessive price increases during periods of high inflation.
- Promote competition in markets to prevent monopolistic practices and price gouging. This can involve stricter enforcement of antitrust laws and regulations.
- Implement fiscal measures to control government spending and reduce budget deficits. This can include cutting unnecessary expenditures and increasing taxes to reduce aggregate demand in the economy.
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- Consider implementing temporary price controls on essential goods and services to prevent excessive price increases during periods of high inflation.
- Promote competition in markets to prevent monopolistic practices and price gouging. This can involve stricter enforcement of antitrust laws and regulations.
- Invest in agricultural research and development to increase productivity and reduce food prices.
- Invest in education and skills development programs to enhance human capital and labor productivity. A more skilled workforce can contribute to economic growth and mitigate inflationary pressures.
- Adopt an inflation targeting framework where the central bank sets explicit inflation targets and adjusts monetary policy to achieve those targets.
- Etc.

(2marks x 5 = 10marks)

16) a) Rural-urban migration is a process whereby individuals move from rural to urban areas with an intention of staying.
(1mark)

b) Negative effects of rural-urban migration to the development:

- Open urban unemployment. Because of the constant movement of people from rural areas, there will be an increase in the number of people in urban areas who will be idle without jobs.

- The problem of dependents. Normally when the people move to urban areas, they tend to stay with their relatives. Therefore, they may cause increased dependency on the side of their hosts which leads to low standards of living.

- Creation of slums. The presence of many people from villages to towns may cause scarcity of housing facilities. This in conjunction with low incomes may cause the people to develop shanty housings leading to creation of slums.

- Government expenditure on social services increases. There will be increase in government expenditure on social services like hospitals and schools among others to cater for the growing population in the urban centres.

- High cost of living in urban areas. The increase in the number of people in urban centres will lead to an increase in the demand for the goods and services. This may not be accompanied by corresponding increase in the supply of goods. In the end, the prices will go up.

- The demand for social services exceeds the supply. There will be strain on the social services in the urban centres. This is because there is increase in the number of users and in the end, there will be high costs of maintenance.

- Food prices increase as well as house rents. The prices of food as well as house rent will shoot up due to the increase in the number of users and in the end problems of poor standards of living and welfare will come up.

- Low agricultural output. Agriculture is mostly carried out in rural areas; therefore, the increase in rural-urban migration means that the number of energetic young men and women who would stay and produce food will be moving to urban centres. Therefore, there will be reduced productivity in rural areas.

- Rural development will be delayed. This is because as more and more people move to urban centres, the government will concentrate on the urban centres and neglect the rural areas since there are fewer people hence rural under development.

-Etc.

(1mark x 7 = 7marks)

c. Policy measures to control rural –urban migration:

- Improve infrastructure such as roads, electricity, water supply, and telecommunications in rural areas to make them more attractive for living and working.
- Encourage the development of rural industries, agriculture, and services to create more job opportunities locally.
- Provide quality education and skill development programs in rural areas to equip residents with the necessary skills for employment and entrepreneurship.
- Ensure access to basic healthcare services in rural areas to improve the quality of life and reduce the need to migrate for medical care.
- Implement policies that support small-scale farmers, promote sustainable agriculture practices, and provide access to markets and credit to enhance rural livelihoods.
- Expand access to financial services such as banking, microfinance, and insurance in rural areas to support economic activities and investment.
- Improve housing conditions and provide basic amenities such as sanitation, clean water, and waste management in rural areas to enhance living standards.
- Promote the use of information and communication technologies (ICTs) to facilitate access to information, markets, and services in rural areas.
- Implement land reform policies to address issues of land ownership, distribution, and tenure security, which can contribute to rural development and reduce land-related conflicts.
- Raise awareness about the opportunities and challenges of rural living and empower local communities to participate in decision-making processes related to development initiatives. Etc.

(1mark

x7=7marks)

END