**JINJA JOINT EXAMINATIONS BOARD**

**MOCK EXAMINATIONS 2022**

**ECONOMICS P220/1**

**MARKING GUIDE**

**SECTION A: 20 MARKS**

1 (a) i Composite demand is the demand for a commodity with several or many

Uses. *(01 mark)*

While

Joint demand is the demand for goods that are used together such that in the

absence of one the other can’t satisfy the want. *(01 mark)*

ii Two examples of complementary demanded goods are:-

* Car and fuel
* Fountain pen and ink
* Gun and bullets
* Mobile phone and airtime

Any 2 x 1 = *(02 marks)*

(b) i Horizontal merging is where 2 or more firms in the same industry and at the

same stage / level of production come together to tap economics of scale.

*(01 mark)*

Whereas

Lateral merging is where 2 or more firms producing products that are related but

not the same come together. *(01 mark)*

ii Reasons for merging of firms

* To achieve monopoly power in production
* To enjoy economics of scale / expand output
* To achieve efficiency in management
* To reduce costs of production as they are shared
* To minimise duplication of products

Any 2x 1 = *(02 marks)*

(c) i Privatisation is the transfer of ownership, control and management of firms/

assets from government to individuals/ private sector. *(01 mark)*

ii **THREE** merits of privatisation

* Increases output levels hence economic growth
* Contributes to government revenue
* Widens consumer choice
* Reduces government expenditure by way of subsidies
* Reduces dependence on imports
* Increases employment opportunities on the long run
* Improves on quality of output ETC.

Any 3 x 1 = *(03 marks)*

(d) i Disguised unemployment is one where labour force is full time and actively

involved in productive activities but the marginal product is zero or negative

(*01mk*)

While

Frictional unemployment is one where labour force is un employed while in the process of changing from one job to another. (*01mk*)

ii Two causes of disguised unemployment:-

* Poor land tenure system
* Discrimination on jobs that leads to over recruitment for a job.
* Limited capital to keep labour optimally employed.
* High population growth rates that create excess labour for available jobs.
* Poor man power planning by government.
* Inadequate skills required for a given job.

Any 2 x 1 = *(02 marks)*

(e) i Public revenue is the total income of the government obtained from different

sources to run its activities. (*01mk*)

ii THREE sources of public revenue:-

* Taxes / taxation
* Fees
* Fines and penalties
* Gifts / Donations / Grants
* Loans
* Licences
* Privatisation
* Rates
* Market dues ETC

Any 3 x 1 = *(03 marks)*

**SECTION B: 80MARKS**

2 (a) Price elasticity of demand is the measure of the degree of responsiveness of

quantity demanded of a commodity to a change in the price of the commodity.

*(02 marks)*

While

Elasticity of demand is the measure of the degree of responsiveness of quantity

demanded of a commodity to change in any of the factors that affect demand for

a commodity. *(02 marks)*

(b) Explaining the factors that influence price elasticity of demand:-

* + - Availability of substitutes
    - Availability of complements
    - Level of income of the consumer
    - Degree of necessity of the commodity
    - Level of addiction in the use of the commodity
    - Number of uses of the commodity
    - Time period – short run and long run
    - Price levels
    - Level of convenience of getting the commodity
    - Possibility of postponement of demand for the commodity
    - Level of durability of the commodity
    - Seasonal changes
    - Level of advertising Any 8 x 2 = *(16 marks)*

3 (a) Describing features of monopolistic competition:-

* + - Existence of free entry and exit
    - Existence of many buyers and sellers
    - Elastic demand curve
    - Firms produce differentiated products
    - Existence of brand loyalty by consumers
    - Firms are price makers to a certain extent
    - Existence of excess capacity
    - Wide spread of persuasive advertisement
    - Profit maximization is the major goal of production Any 8 x 1 = *(8marks)*

(b) Merits of monopolistic competition firm

* Leads to high output levels
* It leads to high quality of output
* Leads to production of a variety of products
* Provides more employment opportunities
* Generates revenue for the government
* Enjoys a wider market due to persuasive advertising
* Firms can early expand their sizes by use of abnormal profit

Any 6 x 1 = *(6 marks)*

Demerits

* + - Firms earn low profit in the long run
    - Firms face high costs of production due to high expenditure on advertising
    - Firms operate at excess capacity hence wastage of resources
    - Leads to unemployment due to exit of inefficient firms
    - Leads to duplication of products
    - Consumers are exploited by way of misleading persuasive advertisements.
    - Leads to small market share due to competition by many firms

Any 6 x 1 = *(6mks)*

4 (a) Standard of living is the material wellbeing of an individual or society at a

given time or Is the condition of life in which people live in a country

*(02mks)*

While

Cast of living is the total amount of money required by an individual to sustain a life style one is accustomed to. *(02mks*)

(b) Limitations of using income per capita to compare standards of living

in a country overtime.

It does not take into account:

* Changes in price levels overtime
* Changes in the quality of goods produced overtime
* Changes in the distribution of incomes over time.
* Changes in the number of hours worked over time
* Changes in working condition overtime.
* Changes in political climate overtime
* Changes in the types of goods produced
* Change in taxation levels of overtime
* Changes in pollution overtime.
* Changes in unemployment level overtime

Any 8 x 2 = (*16mks)*

5 (a) Reasons for cost push inflation in LDCs

* Rising price of imported raw materials
* Rising wages/ salaries of workers
* Rising tax levels on producers
* Increasing interest rates on borrowed money by firms
* Rising costs of adverting by firms
* Rising prices of power/ energy
* Increasing transport costs due to rising prices of fuel
* Rising costs of rent on storage facilities
* Depreciation of the local currency raises the costs of imported products

Any 8 x1= (*08mks*)

(b) Effect of hyperinflation in an economy

* Discourage savings
* Lead to suffering of fixed income groups
* Discourages investments
* Leads to a fall in peoples standard of living
* Creates losses for lenders (creditors)
* Makes the government lose popularity
* Distorts government plan implementation
* Worsens the unemployment problem
* Worsens the B.O.P problem
* Promotes illegal activities
* Promotes brain dram
* Leads to industrial strikes
* Leads to high cost of production
* Retards economic growth rates
* Leads to loss of confidence in the country’s currency.

Any 12 x 1= *12mks*

6 (a) A prospective plans refers to long term plan that sets it targets to cover a

period of ten or more years in the economy (02mks)

Whereas

A comprehensive plan is one drawn to sets its targets to cover the entire

national economy / all sectors of the economy (02mks)

(b) Problems in formulation of development plans in developing countries

* Inadequate funds
* Inadequate necessary statistical data
* Limited supply of skilled labour
* High rates of inflation
* Over ambitious plan objectives
* Corruption among officials
* Political instability
* Poorly developed infrastructure
* Non-responsive growing private sector
* Limited government will/ commitment
* Interference by government/ politicians
* Over dependence on foreign aid
* Unanticipated natural calamites
* Limited public support

Any 8 x 2 = (16mks)

7 (a) Protectionism is an economic policy of restricting trade between nations

through barriers like import quotas

(02mks)

(b) Reasons for protectionism: in LDCs

* To protect infant domestic industries from foreign competition
* To discourage dumping
* To improve on the B.O.P promotion
* To promote self-sufficiency / reduce external resource dependence
* To raise revenue for the government
* For purposes of creating employment at home
* To discourage importation of demerit goods
* To control imported inflation
* To improve on the country’s terms of trade.
* To encourage utilisation of a county’s local resources
* To encourage investment in the country.
* To minimise political control by foreigners
* For purposes of retaliation

Any 9 x 2= (18mks)