



SECTION A (20 MARKS)

Answer all parts of this section

1. (a) (i) An economic good is a good which is scarce in relation to its demand and its consumption involves a cost. (01 mark)
- (ii) The reasons why leisure is regarded as an economic good include the following:-
- One to enjoy it, a cost has to be incurred. *Costs money / has a price*
 - Time for leisure is (relatively) scarce. *Limited in supply*
 - It has an opportunity cost.
 - It provides satisfaction. *utility*
 - ~~Leisure time is transferable.~~
 -
 -
 -
 -

Any 4 x 1 = (04 marks)

- (b) Any four traits of Rostow's take off stage of economic growth:-
- Reduction of foreign dependence. *Self-reliant / Self-sustaining*
 - High level investments amounts (10- 15% of GDP / GNP/NY).
 - High level of saving between 10 – 15% GDP/GNP/NY.
 - *High level of introduction of modern technology.*
 - Expanding markets. *Emergence of new Markets that are local or foreign.*
 - High levels of urbanisation.
 - Emergence of a new class of entrepreneurship. *Social economic classes*
 - Emergence of a leading sector. *High levels of Industrialisation.*
 - High levels of development of infrastructure.
 - High level of employment. *Low levels of unemployment*
 - High literacy level / social transformation. *low levels of illiteracy / High labour skills.*
 -
 -
 -

Any 4x1 = (04marks)

- (c) (i) **Bottleneck inflation.** Is where the persistent increase in the prices of goods and services a rises due to supply rigidities in an economy. *One that arises from supply rigidities.*
- While**
- Cost push inflation.** Is where the persistent increase in the prices of goods and services is due to increase in the costs of production in an economy (01mark)
- One that arises from rising / increasing costs of production.*
- (ii) Remedies to bottle neck inflation are:-
- *Improve / develop* Rehabilitate infrastructure.
 - Improve political climate. *Stabilise political climate*
 - Modernize agriculture to reduce dependence on nature. *Adopt Irrigation.*
 - Import raw materials / inputs from other countries hence ensuring continuous production. *from cheaper sources*

Provide Investment Incentives

- Encourage private, local and foreign investors / further liberalization of the economy.
- Rehabilitation and establishment of industries.
- Diversification of production. Diversify the economy
- Liberalize the economy
- Rehabilitate or establish new / more industries
- Privatise (Inefficient) Public enterprises

Any 2 x 1 = 2 marks

(d) Motives of forming labour organizations in an economy include:-

- To ensure job security. / To protect members from unfair dismissal
- To create unity among workers. / members / employees
- To bargain for improvement in working conditions. / Pension of fringe benefits
- To ensure government comes up with policies that favours workers. / To advise govt on labour laws
- To promote workers' dignity. / To protect workers' human rights
- To improve on the standard of living of the workers
- To improve on the workers' skills and productivity. / To train workers
- To protect workers against exploitation
- To collectively bargain for better wages.

Any 4 x 1 = (04marks)

(e) (i) Centralised planning is one where the central authority / State / government plans / allocates resources in the whole economy and it directs implementation of plans in line with the set target/objectives.

Or

~~This is planning by the central government for the whole country.~~ (01 mark)

While

Decentralised planning is one where by economic decision making and implementation of plans in line with set targets are undertaken by the local government / authorities instead of the central authority.

at District / city / Municipality level. (01 mark)

(ii) Demerits of centralised planning:-

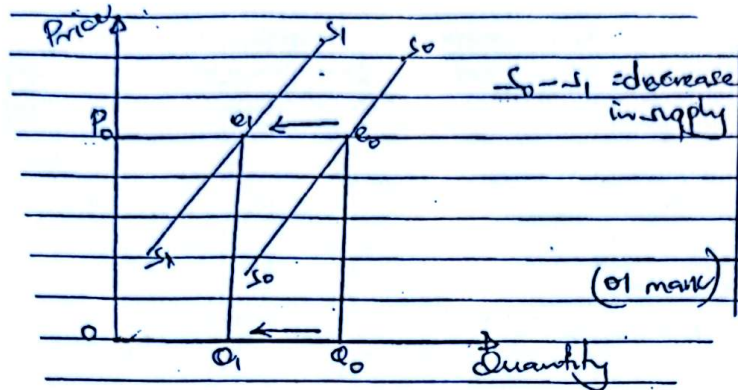
- Limits consumers sovereignty.
- Encourages bureaucracy / Red tape.
- Distorts the working of price mechanism.
- Kills individual / private initiative. / local initiative / limits local participation
- Promotes political dictatorship.
- Costly in terms of formulation, implementation and evaluation / monitoring
- Associated with high levels of corruption and embezzlement of public resources.
- Low quality output is produced due to absence of competition.
- Low quality of output is produced hence low economic growth rate.
- Leads to wastage of resources due to production of goods not basing on demand.

Any 2 x 1 = (02marks)

SECTION B (80 MARKS)

2. (a) Decrease in supply is a reduction in the amount of output put on market due to unfavourable changes in conditions of supply except the commodity's own price. While (01 mark)

Illustration

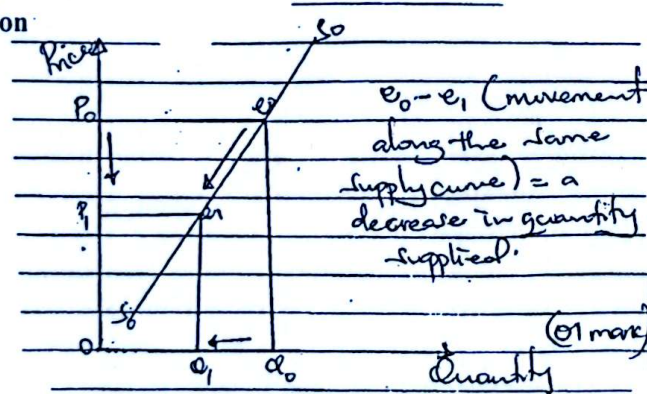


Decrease in quantity supplied is a reduction in the amount of output on market due to a fall in the price of the commodity ceteris paribus.

Or

It's the supply of less quantity of a commodity due to decrease in its price holding other factors effecting supply constant. (01 mark)

Illustration



- Poor land tenure system
- Limited labour skills
- Limited entrepreneurial skills
- Long gestation period
- Poor state of technology.

- (b) The factors that limit the supply of a commodity in an economy are as follows;

Low - ~~Decline in the price of a jointly supplied product.~~

High - ~~Increase in the price of a competitively supplied commodity.~~

High - Unfavorable natural conditions. / Unfavourable Season

High - Under developed infrastructure. / Poor state of infrastructure

High - Increase in the cost of production.

High - Political instability / unfavourable political climate.

High - Decrease in the number of producers / exit of some firms from the industry. / Restricted entry.

High - Depreciation of capital / machines. / Inefficiency of capital

High - Unfavorable Government policy on production. / Low level of Subsidization / High taxes

High - Expectation of future price increase. / High price

High - Fall in the market / demand. / Low demand.

High - Fall in the efficiency of factors of production (labour, raw materials)

High - Poor working conditions

High - Change in the objective of the producer from sales maximization to profit maximization.

High - Low price of a commodity

Any (8 x 2 = 16marks)

1 Mark for stating the point
1 Mark for explaining.

3. (a) Monopoly arises because of the following:-

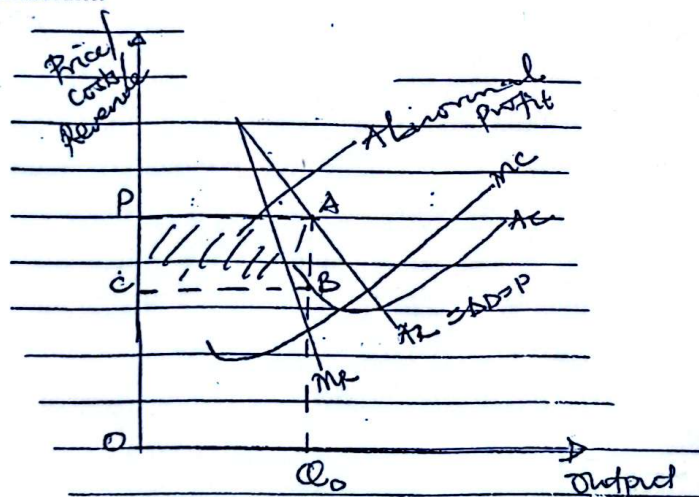
- Huge initial capital requirement.
- Exclusive ownership and control over strategic source of raw materials.
- Mergers or takeovers of firms by longer and more efficient firms.
- Collusion of firms. *Cartel*
- Product differentiation which makes a firm to have monopoly on the Brands it produces.
- Long periods of apprenticeship and training.
- Protectionism in international trade.
- Provision of patent and copy rights.
- Small market size.
- Long distance between firms producing related goods.
- Through Acts of parliament. *Statutes/Decrees*
- Possession of unique talents by individuals.
- Limit pricing.
- ~~Natural endowment leading to natural monopoly.~~

Exclusive possession of techniques of production

Any 8 x 1 = 8marks

(b) A monopoly firm maximizes profits by producing at a point where $MC = MR$ at equilibrium.

1 mark



(2 marks
well developed
diagram)

- It determines price at a point where the output line meets the AR curve. (1mark)
- It determines costs where the output line meets the AC curve. (1mark)
- It earns abnormal profits shown by the shaded region PABC. (1mark)

This is because $AR > AC$

(c) Measures that should be taken to reduce monopoly power in an economy are:-

- Adopt maximum price legislation / fix maximum prices.
- Lumpsum taxes / specific taxes should be imposed. *Profit tax / High tax*
- Nationalise private monopoly firms.
- Encourage formation of consumer associations and co-operative societies.
- Periods of patent and copy rights should be reduced.
- Improve on infrastructure.
- Anti - merger / trust laws should be adopted.
- Liberalise the economy.
- Privatised public monopoly firms.
- Weak firms should be subsidized to enable them remain in production. *Tax incentives to weak firms*

- Import raw materials.
- Provide initial capital to new firms.
- Should strengthen the National bureau of standards.
- *Set output/production quotas*
- *Adopt average cost pricing*
- *Adopt Marginal cost pricing.*

Any (6 x 1 = 6 marks)

4. (a) Real income per capita is the average income of the population in the country valued at base year prices. *Constant prices* (02marks)
While
National income per capita is the average income of the population in the country valued at current year prices. (02 marks)

- (b) The following are the limitations of using income per capita to compare welfare of people between countries:-

- It does not consider differences in distribution of national income / wealth between countries.
- It does not take into account differences in pattern of government expenditure between countries.
- It ignores differences in a mount of leisure foregone *or enjoyed* between countries.
- It does not consider differences in the composition / type of goods produced between countries.
- It does not take into account differences in social costs e.g pollution between countries.
- It does not take into account differences political climate / atmosphere between countries.
- It doesn't consider differences in the rate of unemployment levels between countries.
- It ignores differences in the working conditions e.g occupational hazards between countries.
- It does not consider differences in the boundary of production between countries.
- It ignores differences in tastes and preferences between countries.
- It ignores differences in the size of the subsistence sector between countries.
- Ignores differences in data collection accuracy between countries *Methods used*
- Ignores differences in the level of taxation between countries.
- Ignores differences in the rate of inflation between countries.
- " " " " *quality of gds.*
- " " " " *climate conditions*
- " " " " *political climate*
- " " " " *Strength of Currencies.*

Any 8 x 2 = (16marks)

5. (a) *Quantity* The quantity theory of money states that the general price level in an economy is determined by the *quantity* of money in circulation assuming that the velocity of *circulation of money* (v) and the level of transactions (T) are constant. (02marks)

The theory was summarized in an equation of exchange thus.

$$MV = PT$$

Where;

M stands for quantity of money in circulation.

V Stands for velocity of circulation of money.

T Stands for level of transactions.

P Stands for the general price level.

(02 marks)

According to this theory, an increase in the quantity of money in circulation leads to a proportionate increase in the general price level and a decrease in the quantity of money in circulation leads to a proportionate decrease in general price level assuming the level of transactions and velocity are constant. (02 marks)

- (b) Limitations of the quantity theory of money include:-
Assumes that velocity of circulation of money and level of transactions are constant yet they keep on changing.
- Does not consider other causes of inflation like increase in costs of production.
 - Ignores barter trade, it assumes that all transactions are carried out using money.
 - Ignores bargaining / Haggling as a method of price determination.
 - Ignores influence of interest rate on the general price level (yet it determine money supply.)
 - There is no general price level as assumed in the theory. *as assumed in the theory but a series of prices*
 - Ignores demand for money but concentrates on only money supply.
 - Ignores government ability to control prices of commodities.
 - Ignores the fact that where there are idle resources an increase in money supply leads to increase in output which may cause a fall in price level.
 - Ignores other motives of keeping money and concentrates on only transaction motive.
 - The four variables M, V, P and T are not independent of one another because a change in one induces a change in another.
 - The theory only explains changes in the value of money but not how the value of money is determined.
 - *High MPS | Savings limits the applicability of the theory*
 - *It is not a theory but a truism*

Any 7 x 2 = (14 marks)

6. (a) The rationale for giving foreign aid to other countries include:-
- For humanitarian reasons. *| for philanthropic reasons*
 - To promote trade / exports of the donor country. *| To create Market for their products*
 - To create employment opportunities for their Nationals.
 - To increase political dominance of the recipient country.
 - To promote the donor country's socio - political ideology.
 - To extend the donor country's military influence / for strategic reasons / military control. *To exploit local resources*
 - To acquire access to strategic resources owned by a less developed recipient country.
 - To support the development agenda / programme of the developing countries.
 - ~~To obtain market / to dispose off surplus products of the donor country.~~
 - For commercial purpose i.e. to make profits.
 - For prestigious reasons i.e. show economic power. *of the donor country*

(8 x 1 = 8 marks)

- (b) Effects of foreign / assistance rendered to developing countries included:-
Positive effects:

- Creates employment opportunities.
 - Promotes development of local skills through training.
 - Closes savings - investment gap.
 - Closes foreign exchange gap.
 - Increases government revenue / budget support. *| fills govt revenue-expenditure gap*
 - Encourages technological transfer and development / Helps in closing technological gap.
 - Promotes development of modern infrastructure.
 - Reduces effects of natural catastrophes / disasters.
 - Fills man power gap.
 - Increases local resource exploitation.
 - Provides market for local products.
 - Improves international relations.
 - Leads to importation of better quality goods.
- Improves BOP in the short run.*
• Reduces the tax burden in the short run.

- Promotes political stability.
- Promotes economic growth.
- Accelerates industrial growth in form of capital investment.
-
-
-

(Any 6 x 1 = 6 marks)

Negative effects include:-

- ~~Increases capital outflow~~ / Leads to B.O.P problems due to repayment obligation.
- Worsens economic dependence. / ~~Worsens external resource dependence~~
- Leads to cultural erosion. / ~~Moral decay~~
- Worsens foreign political dominance.
- Increases brain drain.
- Results into unemployment due to automation / ~~Machines~~
- Kills local initiative / Encourages laziness.
- Expensive to maintain expatriates. / ~~Machines~~
- It is unreliable and inadequate as it subjects the recipient country to unfavourable conditions.
- It denies nationals essential goods and services.
- Worsens economic domination by donors over recipient countries.
- Leads to income and profit. ~~reparation~~
- Undermines capital formation due to debt servicing.
- Makes planning difficult as aid is inconsistent, tied and inadequate.
- It may be withdrawn before completion of projects hence failure.

- ~~leads to dumping into the recipient country~~ Any (6 x 1 = 6 marks)
- ~~Kills local Industries.~~ recipient

7. (a) Tax evasion is the deliberate refusal by a tax payer to pay the tax assessed on him/her.

(2 marks)

See @ the back for the definitions of tax compliance. while

(b) Factors that influence tax compliance in an economy.

- Level of actual income.
- Nature of employment.
- Tax rates / Rate of taxation.
- Level of tax education.
- Quality of tax administration.
- Attitude towards tax payment.
- Level of motivation and rewards.
- Level of simplicity / Degree of simplicity.
- The extent to which the tax system is fair (Fairness of the tax system)
- Level of consistency.
- Method of tax collection.
- Customer care to the payers
- ~~Use of informants.~~

- Fines. and penalties imposed on tax defaulters / ~~there that are non-compliant~~
- level of use of whistle blowers / ~~informants~~

Personal / Social / National Norms of Individuals.

level of ~~Popularity~~ popularity of the govt in the

The extent to which the tax is equitable
level of transparency and accountability in tax authority

Tax compliance is ^{the} degree to which a tax payer or tax paying ~~community~~ ^{country's} community conforms to the tax mis/regulations and meets their tax obligations.

or
Is the degree to which the tax payer / tax paying community meets the tax obligations as set up in appropriate and regulatory provisions of the tax & law.