



SECTION A (20 MARKS)

Answer all parts of this section

1. (a) (i) Equilibrium <sup>price</sup> is a price where the economic forces of demand and supply are equal. (01mark)
- <sup>interaction</sup> OR  
Is a ~~market~~ <sup>goods</sup> price where the quantity of ~~goods~~ <sup>goods</sup> supplied is equal to the quantity of ~~goods~~ <sup>goods</sup> demanded (01mark)

(ii)  $QD = 100 - p$   
 $QS = 80 + p$   
 At Equilibrium price, Quantity demanded = Quantity supplied. ✓ 01  
 $EP = 100 - p = 80 + p$   
 $= \frac{20}{2} = \frac{2p}{2}$  ✓ 01  
 $= 10 \text{ shillings}$  ✓ 01

∴ Equilibrium price = 10 shillings or Shs.10

( mark)

- (b) (i) Gradual inflation is the one in which the persistent increase in the general price level proceeds at the slow rate (usually less than 10% per annum) (not a commodity) NOT exceeding 10% (Reject) (01 mark)

While

Suppressed inflation is a situation where <sup>aggregate</sup> demand exceeds <sup>aggregate</sup> supply but the effect of this on price is minimized by the <sup>govt intervention through</sup> price controls and rationing.

(01 mark)

Or

Is a type of inflation that can be controlled by price controls and rationing. of commodities.

- (ii) Two effects of gradual inflation in an economy.

- 1) It increases government revenue.
- 2) Encourages investment / entrepreneurship.
- 3) Creates employment opportunities.
- 4) Encourages innovation and inventions.
- 5) Increases <sup>creativity</sup> output hence economic growth.
- 6) Debtors gain.
- 7) Increases labour mobility.
- 8) Monetises the economy. / <sup>reduces</sup> subsistence.
- 9) Increases the rate of resource utilization.
- 10) Leads to increased labour supply.
- 11) Increases the level of industrialization / encourages import substitution.
- 12) Promotes effort / hard work among the citizens.
13. Removes the economy out of depression.

- ✓ discourages lending as creditors lose
- ✓ leads to uneven distribution of income
- ✓ worsens b-o-p problem.
- ✓ encourages malpractices -
- ✓ makes future planning difficult
- ✓ discourage consumption of
- ✓ reduces money value
- ✓ worsens life
- ✓ increases brain drain
- ✓ strains workers
- ✓ leads to industrial unrest
- ✓ fixed income earners suffer

(2 x 1 = 02 marks)

(Reject past tense)

- (c) (i) **Monetary policy** refers to the deliberate attempt by government through the **central bank** to regulate the amount of money <sup>(money supply)</sup> in circulation so as to attain objectives of development (Such as price stability, stable economic growth rates, full employment) etc.

~~(Any 1X1)~~ = 01mark)

- (ii) Any three (3) tools of monetary policy used in an economy.

- ① - Bank rate. (Reject bank rates)
- ② - moral suasion
- ③ - Currency reform.
- ④ - Open market operations (OMO)
- ⑤ - (Minimum) legal reserve requirements.
- ⑥ - Rationing of credit.
- ⑦ - Selective credit control.
- ⑧ - Special deposits / supplementary legal reserve requirement. (sp penalised)
- ⑨ - Cash ratio/ Liquidity ratio/ variable reserve requirement
- ⑩ - margin requirement (reject marginal)
- ⑪ - Direct action / intervention.

(Any 3X1 = marks)

- (d) (i) **Balanced growth strategy** is a development strategy that advocates for a simultaneous and harmonious investment in all sectors of the economy so that they complement each other and grow more or less at the same pace.

sp

(01mark)

**While/yet/but**

Unbalanced growth strategy refers to a development strategy that advocates for investment in key <sup>leading/vital/one or few</sup> sectors of the economy first and others develop later through linkages.

(01mark)

- (ii) Adverse effects of a balanced growth strategy include;

- ① - Results into heavy debt burden. / necessitates borrowing
- ② - Promotes external dependence.
- ③ - Leads to quick resource depletion. / leads to overexploitation of resources
- ④ - Strains government planning machinery.
- ⑤ - It's inflationary in the short run.
- ⑥ - ~~It's~~ costly / expensive. / increases govt expenditure.
- ⑦ - Leads to wastage because of limited market.
- ⑧ - Leads to heavy losses in case of projects failure.
- ⑨ - worsens b.o.p position
- ⑩ - Discourages specialisation / ignores comparative advantage

(2 x 1 = 02 marks)

- (e) (i) **Re current expenditure** is the day today spending of the state aimed at maintaining existing capacities.

(01 mark)

**While**

Development expenditure is the expenditure by the government on capital goods / investments / establishment of projects for the purpose of expanding / creating capacities to generate more goods and services.

(01 mark)

(ii) Principles of government expenditure.

- ① - Principle of Authority / sanction.
- ② - Principle of economy.
- ③ - Principle of Elasticity / flexibility.
- ④ - Principle of maximum social benefit.
- ⑤ - Principle of surplus
- ⑥ - Principle of sound financial administration.
- ⑦ - Principle of neutrality.

2 x 1  
(Any 4 X 1 = 4 marks)

### SECTION B (80 MARKS)

2. (a)

Derived demand is the demand for a commodity <sup>not for its own sake</sup> because of demand for the products it helps to produce.

(02 marks)

**While.**

Competitive demand is the demand for commodities that serve the same purpose. <sup>such that an increase in demand for one commodity leads to a decrease in demand for the other commodity.</sup> (02 marks)

The following include the factors that cause a shift in the demand curve of commodities.

- Changes in the consumer's level of income.
- Expectation of a (future) price change.
- Change in the price of a substitute.
- Change in the price of complements.
- Change in season.
- Change in level of advertisement.
- Change in consumers' tastes and preferences.
- Change in the population size and structure. (change in market size)
- Change in the government policy on consumption of the commodity i.e subsidization/taxation. (not taxes on goods / subsidise consumers NOT firm)
- Change in the availability and terms of credit facilities.
- Change in the nature of income distribution.
- change in quality of goods.
- change in sociological & cultural factors. (mk - mentioning, mk - explanation)

Accept: Shift / Variation

Do not accept: High / low

(Any 8 X 2 = 16 marks)

3. (a)

The need to increase capital accumulation in developing countries is as follow:

- To increase output hence economic growth. / To increase economic growth
- To increase the level of employment.
- To increase the rate of utilization of natural resources.



- To promote production of <sup>high or better</sup> good quality goods.
- To increase investment / ~~entrepreneurship~~.
- To minimize dependence on other economies.
- To raise the level of labour skills.
- To promote diversification of the economy.
- To improve the balance of payment position.
- To facilitate research, thus technological development.
- To enhance development of infrastructures.
- ~~To promote equitable income distribution.~~
- To monetize the economy. / To reduce the level of subsistence
- To widen consumers' choices.
- To increase government revenue.
- To facilitate economic reforms.
- To simplify production.
- Accept: Need to ---  
In order to ---

(Any 10X1= 10 marks)

- (b) Measures / steps that can be taken to increase accumulation include;
- Develop infrastructures / Build or expand or upgrade physical infrastructures.
  - Encourage savings.
  - Liberalize the economy.
  - Provide investment incentives to investors.
  - Widen market to increase sales / profit. / expand market size
  - Stabilize the political atmosphere.
  - Fight corruption / promote / encourage proper accountability.
  - Improve labour skills through training.
  - ~~Change or~~ improve or reform the land tenure system.
  - Provide or avail affordable loans or capital or credit for investment. / Reduce on interest rate
  - Improve entrepreneurial ability / promote entrepreneurship.
  - Stabilize prices / control inflation / reduce the rate of inflation.
  - Control population growth rate.
  - Monetize the economy.
  - Improve the production techniques/ encourage the development and application of new production techniques.
  - Discourage or fight cultural rigidity through sensitization.
  - Private public enterprises / public assets. (Reject private the economy / sector)
  - Undertake international publicity to attract foreign investment.

(Any 10X1 = 10 marks)

- I. (a) Significance of computing national income statistics in an economy:
- It determines the level of economic growth and development.
  - It is used for economic analysis, research and planning.
  - It is used to compare the standard of living between countries.
  - It is used to compare welfare of the economy over time.
  - It is used to measure the per capita i income.

- It is used to show income distribution.
- It helps to determine the leading and lagging sectors of the economy.
- It helps to show the expenditure pattern within the country.
- It is used to request for foreign aid from developed countries.
- It helps to show the level of resource exploitation.
- It is used to determine the extent of foreign dependence.
- It is used to compare S.O.I within a country.

(Any 6 X 1 = 06 marks)

- (b) Problems encountered in compiling national income statistics figures are;
- Limited skilled labour/ limited skills of the statisticians/ Inadequate
  - Inadequate statistical data / limited information.
  - Problem of double counting. / intermediate & final goods / prob of identifying transp. people
  - Difficulty to identify the value of non-paid for services.
  - Difficulty in determining net income from abroad.
  - Problem of illegal activities / Difficulty in identifying income from illegal activities.
  - Difficulty of valuing subsistence output.
  - Problem of valuing inventories and work in progress. / prob of timing production
  - Difficulty in determining the value of depreciation.
  - Difficulty in determining the value of government expenditure. / public utilities
  - Inadequate / shortage of equipment / limited facilities.
  - Problems of errors of omission and ~~determining~~ the commission. / Statistical errors
  - Problem of boundary of production. / Difficulty in determining boundary of prod.
  - Price instability / price fluctuations.
- Imk - mentioning  
Imk - explanation

(Any 7 X 2 = 14 marks)

5. (a) Agricultural modernization refers to the changing of agricultural from <sup>low yielding</sup> subsistence ~~low~~ production to high yielding commercialized agricultural sector.

(02 marks)

**While / yet / but.**

Agricultural mechanization is the extensive use of machinery in farm production activity to substitute or complement human labour to increase productivity.

(02 marks)

- (b) Factors that limit Agricultural modernization in developing countries.
- Under developed infrastructures. / Poor infrastructure / Poorly developed
  - Unpredictable natural factors/ natural hazards.
  - Small size of the market. / Limited market size
  - Unfavourable political climate / political instability.
  - Low level of technological development. / Poor technology / Ltd research
  - Poor land tenure system. / unfavourable land tenure system

- Limited entrepreneurial ability.
- Low fluctuating prices of agriculture products.
- Unfavourable / rugged topography. / relief
- Low levels of accountability / high rates of corruption. / corruption
- Conservatism of some farmers.
- Not applicable where human judgement is paramount / needed
- Limited capital. / inadequate capital / insufficient funds
- Limited skilled labour
- Rapid population growth rate
- Unfavourable govt in terms of high taxation on farm inputs
- High interest rate on borrowed capital
- High inflation rate

(Any 8 X 2 = 16 marks)

1mk - stealing

1mk - Explaining

6. (a) Causes of persistent balance of payment <sup>deficits</sup> deficits include the following.

- Low volume of exports.
- Exportation of mainly primary products.
- High marginal propensity to import.
- Heavy expenditure on importation of military hardware.
- Trade restrictions in export markets. / Protectionism and discriminatory pol.
- High level of profit and <sup>income</sup> wage repatriation. / High dependence on expatriates.
- Prices of exports are externally determined. / weak bargaining power on world mk
- Limited variety of exports.
- Importation of highly priced goods.
- Exportation of low-quality products.
- Weak bargaining power among the developing countries. on world mk
- Heavy government expenditure abroad on diplomatic missions / travels
- Limited market abroad / market flooding of agricultural products abroad.

Heavy / High level of debt servicing and repayment  
 - Depreciation / devaluation of local currency / unfavourable exchange rate

(Any 10 X 1 marks)

(b) Effects of balance of payment deficits on an economy are;

(Negative effects)

- Causes unemployment.
- Leads to high levels of taxation.
- Increases government expenditure.
- Leads to low levels of importation. / limits country's capacity to import
- Leads to high levels of capital flight. / capital outflow
- Discourages investment.
- Leads to low levels of economic growth. / retards economic growth / limits of
- Leads to depreciation of the local currency.
- Increases foreign dependency.
- Increases foreign debt.
- Leads to low savings.
- Causes foreign exchange shortages.



Makes planning difficult.  
Leads to inflation.

(Any 5 X 1 = 5 marks)

(Positive effects)

- Encourages setting up <sup>of</sup> import substitution industries.
- Promotes regional ~~cooperation~~ <sup>economic integration</sup>.
- Promotes diversification of exports.
- Encourages improvement in the quality of exports.
- Strengthens international / commodity agreements.
- Results into restructuring of foreign missions and travels by government officials.
- Promotes development of local skills/ skilled manpower.
- Encourages production of more goods for export.

(Any 5 X 1 = 5 marks)

7. (a) Components of a national budget.

- 1) Statement of ~~actual~~ <sup>previous</sup> revenue and expenditure for the ~~preding~~ <sup>previous</sup> year.
- 2) A statement of ~~actual~~ <sup>estimated/expected</sup> revenue and expenditure for the forth coming year. <sup>following yr.</sup>
- 3) A set of proposals for such changes in taxation as may be necessary to balance expenditure. <sup>- contribution of each sector to GDP</sup>
4. ~~Debt servicing / debt management.~~ <sup>(4 x 1 = 4 marks)</sup>
5. ~~Budget allocations~~ <sup>- Expected growth rate for next financial yr</sup>

Role of a national budget in an economy; <sup>current</sup> <sup>econ growth rate</sup>

1. Creates employment opportunities.
2. Controls inflation.
3. Improves the balance of payment position.
4. Protects infant industries against foreign competition.
5. Reduces income inequality.
6. Discourages <sup>prodn. / importation</sup> consumption of harmful goods.
7. Raises revenue for the government.
8. Accelerates the rate of economic growth.
9. Reduces economic dependence.
10. Manages the public debt.
11. Regulates government expenditure.
12. Creates balance in regional development. /
13. Mobilizes masses/ useful in soliciting for political support.
14. <sup>influences investment levels / resource allocation</sup> (8 x 2 = 16 marks)
15. controls dumping

END

lnk - mentioning  
lnk - explanation (of how it is attained).