



SECTION A (20 MARKS)

1. a) (i) Consumers' surplus refers to the difference between the price a consumer is willing to pay for a given commodity and what he/she actually pays for it.

(1mark)

While

Producers' surplus refers to the difference between what the producer expects to earn from sales and what he/she actually obtains (earns).

OR Additional / extra satisfaction / utility enjoyed by a consumer without paying for it.

OR The extra income that a producer earns without increasing supply.

(1mark)

- (ii) Producers' surplus = Actual Revenue – Expected Revenue. **(1 mark)**
 $1,000 + 1,500 + 2,000 + 2,500 = \text{Shs. } 7,000$ **(½ mark)**
 Actual Revenue = $4 \times 2500 = 10,000$ **(½ mark)**
 $10,000 - 7,000 = \text{Shs. } 3,000$

OR : Alternatively

Actual Revenue – Expected Revenue **(1mark)**

$2,500 - 1,000 = 1,500$

$2,500 - 1,500 = 1,000$ substitution **(½ mark)**

$2,500 - 2000 = 500$

$2,500 - 2,500 = 0$

$1,500 + 1,000 + 500 = \text{Shs. } 30,000$ **(½ mark)**

(2marks)

- b) (i) Excess capacity of a firm is a state/situation a firm produces less output (at a high AC) than its installed capacity ie the firm produces less than optimum output.

OR A situation where a firm under utilizes (productive) resources.

(1mark)

- (ii) Three causes of excess capacity include;
1. Inadequate capital to operate at full capacity.
 2. Inadequate raw materials (factor in puts)
 3. Small market (Narrow market for the goods)
 4. Need to maximise profits.
 5. Poor/ undeveloped technology to enable machines operates at full capacity.
 6. Inadequate storage facilities to absorb more output / undeveloped infrastructure.
 7. Unfavourable government policy towards production.
 8. Limited skilled labour / use of semi-skilled labour.

9. Political / economic instability.
10. High cost of production.

Any 3 × 1 = 3 marks

- c) (i) Industrial inertia is the tendency of an industry to locate.
(or continue surviving) in an area where other industries exist even when factors which led to (it's) location of the no longer apply / exist.
(1mark)

- (ii) The three reasons why the government may influence the location of an industry include:
1. To encourage effective exploitation of some resources.
 2. To create more employment opportunities.
 3. To facilitate fair distribution of income / to reduce income inequality.
 4. To ensure balanced regional development.
 5. To minimize the adverse effects of localization e.g. pollution
 6. To control monopoly tendencies.
 7. To avoid unnecessary duplication and wastage.
 8. To fulfill political obligations / for strategic reasons.

9. Any 3 × 1 = 3 marks

- d) (i) Capital consumption allowance refers to the amount of money put aside to replace the worn out parts of capital assets (e.g. machines) used in the production process.

OR

It is the depreciation allowance which is the provision for wear and tear of capital used in the production of national output.

(1mark)

- (ii) $GNP_{fc} = GDP_{mp} + \text{Net income from abroad} + (\text{subsidies} - \text{indirect taxes})$
(1mark)

$$= 10M + 5M + (0.5 - 2M) \dots\dots\dots$$

$$= 15M - 1.5M$$

$$= \text{Shs } \underline{\underline{13.5\text{Million}}}$$

OR Shs. 13,500,000

- c) (i) Assets of a commercial bank are the possessions of a commercial bank plus its claims in other financial institutions.

(1mark)

While

Liabilities of a commercial bank are claims against assets of the bank by creditors or depositors or what the bank owes other entities.

(1mark)

- (ii) The two examples of assets of a commercial bank include;
1. Securities (bonds).
 2. Reserves with the central bank
 3. Bank investments in other business ventures.
 4. Special deposits with the central bank.
 5. Cash reserves; coins and notes.
 6. Loans and advances / over drafts to customers.

7. Fixed assets of the bank e.g. buildings, land etc.
8. Retained profits

Any 2 × 1 = (2 marks)

SECTION B 80MARKS

2. a) Price Mechanism is a system in a free enterprise economy where prices in the market are determined by the forces of demand and supply.

OR Is a system in a free enterprise economy where resource allocation and price determination is influenced by the forces of demand and supply without government intervention.

(2marks)

While

Price control or price legislation is the fixing of prices for goods and services by the government, for example price ceiling and price floor in an economy.

OR It is the government intervention in the operation of price mechanism by way of determining prices, wages, rent to avoid consumer / producer exploitation.

(2marks)

The role of price mechanism in resource allocation;

- (i) Efficient allocation of resources by directing them to those uses that yield maximum satisfaction or output. (Determine what to produce)
- (ii) Determines how much should be produced and supplied to eliminate unnecessary surpluses or shortages. (or it provides automatic adjustment between supply and demand)
- (iii) Provides an incentive to economic growth, since high prices increase profits which in turn encourages investment.
- (iv) Determines the type of technology depending on the level of efficiency and cost of that technology (how to produce).
- (v) Encourages competition which ensures efficiency in production and better quality output.
- (vi) Price mechanism determines income distribution by ensuring that income goes to those with resources and major means of production.
- (vii) It enables consumers to buy from the cheapest source and maximize utility (guides consumers in their consumption expenditure decisions)
- (viii) Price mechanism determines the distribution of goods and services (for whom to produce).
- (ix) It determines where to produce i.e. the location of production units.
- (x) It determines when to produce i.e. when demand is high, more resources are allocated towards the production of a particular commodity.
- (xi) Increases variety of output due to staff competition hence widening consumer's choice / consumers' sovereignty.

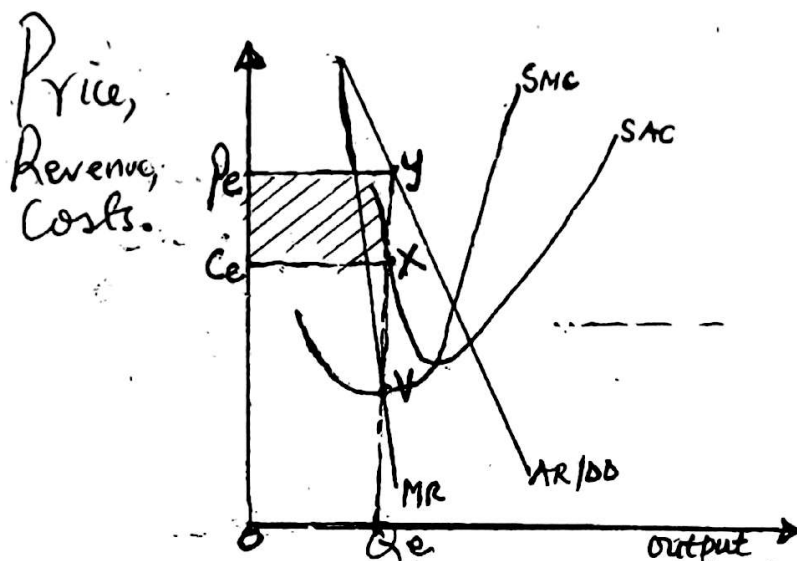
Mentioning a right point -1mark

Explanation -1mark

Any 8 × 2 = (16 marks)

3. a) Profit Maximisation by a monopoly firm the short run is attained at point where $MC = MR$. (01mark)

Illustration



For a well labelled diagram

(02 marks)

- (i) Output (quantity) is determined at a point where $MC=MR$, the quantity is Q_e at V (1mark)
- (ii) Price is determined at a point where the output line Q_e touches/meets the average revenue curve (demand curve), i.e. at point X the price is 'ope' (1mark)
- (iii) In the short run a firm makes supernormal (abnormal profits) indicated by the shaded area $C_e P_e X Y$, at this point $AR > AC$ at equilibrium level of output. (1mark)

Positive implications of monopoly practice.

(06 marks)

- (i) It limits duplication and resource wastage.
- (ii) Enjoyment of economies of scale due to large scale operation and limited competition.
- (iii) Price discrimination is possible which benefits the low income earners (groups).
- (iv) Encourages research and innovation through patent rights and abnormal profits.
- (v) Facilitates provision of public utilities at affordable price a case of gov't monopolies.
- (vi) Enables growth and development of infant industries/firms.
- (vii) Monopoly practices involves low operational costs.
- (viii) Source of revenue to the government.
- (ix) Enjoyment of abnormal profit.
- (x) Provision of employment opportunities.

Any 7 × 1 = (7marks)

Negative implications of monopoly

- (i) Production at excess capacity / resource wastage.
- (ii) Worsens income inequality / disparity.
- (iii) Leads to unemployment and under employment of labour.

- (iv) Production of low quality goods/service (output) due to lack of competition.
- (v) Results into (creates) artificial shortages.
- (vi) Exerts alot of pressure on government / manipulates government ideological / policies.
- (vii) Leads to limited variety of products.
- (viii) Results into consumer exploitation.
- (ix) Results into exploitation of workers (little pay and over work)
- (x) Contributes less to government revenue / tax base.
- (xi) Contributes less to government revenue / reduces tax bare

Any 7 × 1 = (7 marks)
= 14 marks

NB: R.U.M; rural urban migration.

4. a) Reasons why unemployment is becoming a problem of concern today.
- (i) Unemployment breeds social evils like robbery
 - (ii) It leads to loss of skills.
 - (iii) It worsens the problem of income inequality.
 - (iv) Results into low demand (Narrows the market)
 - (v) Leads to accelerated problem of brain-drain.
 - (vi) Leads to limited tax base.
 - (vii) It leads to increased government expenditure as it provides social services.
 - (viii) Loss of funds in training labour (tax-payers' money).
 - (ix) Loss of government popularity (social strive)
 - (x) Breads social strive (conflicts) between the people.
 - (xi) Reduces saving and investment
 - (xii) Increases the dependences burden
 - (xiii) Discourages investment in education.
 - (xiv) It accelerates R.U.M with its negative effects.

Any (10 × 1 = 10marks)

- b) Measures that should be adopted to reduce unemployment problem among the youth today include;
- (i) Control the high population growth rate so as to match the jobs available.
 - (ii) Improve the basic infrastructure in the economy to ensure increased production.
 - (iii) Modernization of agriculture to promote large scale production hence creating more jobs.
 - (iv) Undertake industrialization.
 - (v) Encourage the use of appropriate technology ie more labour intensive than capital intensive technology.
 - (vi) Adopt the necessary land –reform policies.
 - (vii) Embark on education reforms to impact practical skills.
 - (viii) Privatization of public enterprises should be undertaken to increase jobs in the private sector.
 - (ix) There is need to diversity economic activities.
 - (x) Liberalization of the economy.
 - (xi) Improve political climate (atmosphere).
 - (xii) Exporting surplus labour.

- (xiii) Advertise the existing jobs.
- (xiv) Provide more investment incentives to investor ie more subsidization, tax holidays etc.
- (xv) Undertake special programmes for the youth eg special needs sensitization/disability programme / on job training.
- (xvi) Widen the market (base), internal/external.
- (xvii) Avail soft loans to the youth.
- (xviii) Embarking on proper manpower planning.

Any 10 × 1 = (10marks)

5. The extent of relevance/ applicability of the Malthusian theory of population. The theory is only relevant to a minor/less/smaller extent as indicated below / OR the theory is not relevant to a large extent. **(2 marks for a standing point)**

Relevances

- (i). Land in developing countries is fixed and subjected to the law of diminishing returns just like Malthus suggested thus making the theory relevant.
- (i). Natural family planning methods/ population control measures like celibacy are being used; these control measures were advocated for/initiated by Malthus hence making the theory relevant.
- (ii). Land problems/disputes are common issues/cases in developing / less developed countries as suggested by Malthus, making the theory relevant.
- (iii). Some areas/parts in developing countries face/experience food shortages (famine) making the theory relevant/applicable.
- (iv). Malthus mentions positive checks e.g. wars and this is a reality in developing nations making the theory relevant to this extent.

Any 4 × 1 = 4marks

To a bigger/ great, the theory is not relevant/ applicable to developing countries in that;

- (i) It assumes constant technology which is unrealistic since there is technological progress in developing nations.
- (ii) It assumes a closed economy yet economies of most low developing countries are open and participate in international trade.
- (iii) The theory did not fore see possibility of labour mobility where labour can move to areas with enough food supply.
- (iv) Population growth does not necessarily depend on food supply alone but also on other factors e.g. cultural factors/religious factors and birth rates
- (v) The theory is based on a subsistence economy but economies today are growing from subsistence to commercial.
- (vi) The theory ignored improvement in transport network to link areas of food shortages to countries/areas where food exists in plenty.
- (vii) The theory did not foresee the possibility of getting foreign aid/resources from other countries. But some countries are capable of getting food from other countries, therefore irrelevant.
- (viii) There is no mathematical relation as regards supply of food and population increase/growth, hence is irrelevant.
- (ix) The theory ignores deliberate and scientific methods of birth control e.g. modern family planning methods like the use of contraceptives
- (x) The theory did not foresee that rising living standards can cause a fall in birth rates and population growth rate.

- (xi) Agriculture modernization is not foreseen by the theory yet it takes place in most developing countries.
- (xii) The theory does not specify the period / time for population trap
- (xiii) The Negative checks suggested by the theory are positive in the real sense and the positive checks are negative.
- (xiv) The law of diminishing marginal returns does not hold always making the theory irrelevant

Any 7 × 2 = 14 marks

6. a) Currency undervaluation is the fixing of the value of a country's currency by the monetary authority above the equilibrium exchange rate or at a rate of much lower value than it's real value in market,
(for example; If the equilibrium exchange rate is US\$1=ugshs 1000 and the government fixes the exchange rate at US\$1=ugshs 1500. This makes exports very cheap and the import very expensive causing a B.O.P surplus.)

(2marks)

While

Currency revaluation is the legal/ official/deliberate increase in the value of a country's currency in relation to foreign/other currencies under a fixed exchange rate system. E.g. assume US\$1=2,500 and there is revaluation by 20%, the new exchange is $\left(\frac{80}{100} \times 2500 = \text{Shs. } 2025\right)$

1USD = Shs. 2000

(2marks)

- b) Why it is necessary for a country to devalue its currency:
- (i) To increase the volume of exports.
 - (ii) To reduce the volume of imports.
 - (iii) To improve/correct the balance of payment position.
 - (iv) To increase foreign exchange earnings(forex)
 - (v) To increase foreign capital inflow.
 - (vi) To encourage domestic production (protect domestic industries).
 - (vii) To promote self-reliance/reduce foreign dependency.
 - (viii) To retaliate against trading partners that have devaluated their currencies.
 - (ix) To check on imported inflation.
 - (x) To fulfil the IMF/WB conditionalities.
 - (xi) To avoid/discourage dumping.
 - (xii) To increase local resource utilisation

1 mark for point

1 mark for point

Any 8 × 2 = 16 marks

7. a) The features/characteristics /of a good development plan include; it should; or must have the elements, of;
- (i) Should promote participation of society / should be socially desirable.
 - (ii) Should be compatible with others and promote linkages.
 - (iii) Should be consistent in relation with the available resources.
 - (iv) Should be Comprehensive (i.e.), should cover all sectors of the economy.

- (v) Should be flexible: simple/easy to adjust according to the prevailing conditions (pol-social or economic)
- (vi) Should be politically acceptable so as to enable easy implementation (politically relevant).
- (vii) Should be socially desirable (acceptable) i.e. should address the problems of the people.
- (viii) Should be simple with clear objectives should be easy and simple to understand.
- (ix) Should be economically feasible i.e. the resources required should be available.
- (x) Internationally relevant; should encourage production for both local and international benefits.
- (xi) Should be sequential; all stages in the plan implementation should follow each other logically, one after other.
- (xii) Should be proportional; must lead to equitable/balanced development.
- (xiii) Cost benefit; cost should not exceed expected benefits.
- (xiv) Should be optimal in resource use, should not promote excess capacity.
- (xv) Should be continuous i.e. plan objectives and targets should not stop abruptly.

Any 8 × 1 = 8 marks

- b) The merits of decentralized planning in an economy include;
- (i) Promotes the use of local resources.
 - (ii) Ensures balanced regional development.
 - (iii) Ensures that each region/area takes full advantage of its resources.
 - (iv) Ensures fair distribution of employment opportunities.
 - (v) Ensures equitable income distribution.
 - (vi) Minimizes/reduces bureaucratic tendencies / easy to implement.
 - (vii) It promotes a sense of belonging and commitment / encourages public participation.
 - (viii) Controls rural urban migration with associated defects.
 - (ix) Ensures efficiency in resource allocation.
 - (x) Reduces expenditure pressure on the central government.

Any 6 × 1 = 6 marks

Demerits of decentralized planning include;

- (i) It can easily cause and encourage corruption.
- (ii) Leads to massive wastage of resources / duplication of projects / services.
- (iii) Promotes inefficiency in production / poor service delivery.
- (iv) Can easily cause regional imbalance.
- (v) Leads to conflict/disputes in resource allocation and some other opportunities.
- (vi) Promotes divergence between National and regional benefits.
- (vii) It makes sequencing of plan usually harder/impossible.

Any 6 × 1 = 6marks

END