

**CHRISTIAN SOCIAL SERVICES COMMISSION (CSSC)**  
**NORTHERN ZONE JOINT EXAMINATIONS SYNDICATE (NZ-JES)**



**FORM SIX PRE-NATIONAL EXAMINATION**

**151/1**

**ECONOMICS 1**

**MARKING SCHEME**

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1. No, scarcity definition of economics cannot explain all aspects of economics due to the following reasons:-
  - (i) Economics deals with human behaviour which varies from one person to another and between time.
  - (ii) Economics is still unfinished science.
  - (iii) Time of defining economics.
  - (iv) Background of economists.
  - (v) Economics is very wide subject and it deals with many aspects.

**(5 Points @ 2 marks = 10 marks)**
  
2. Economic downturn is the same as recession so the student required to give out five policy measures to control recession
  - i) Expansionary monetary policy i.e. increasing money supply to stimulate economic activities
  
  - ii) Expansionary fiscal policy this through:
    - Increasing government expenditure that is providing subsidies to different sectors of economy
    - Reducing direct and indirect taxes.
  
  - iii) Exchange rate policy that is devaluation of currency.
  
  - iv) Price and wages control this can be done through price ceilings and price floor and Government can raise the level of wages
  
  - v) Trade policy this is through promoting internal and external trading and relaxing trade and restrictions.

**(Any five points @ 2marks =10 marks)**

3. (a) Given

$$Qdx = 2000 + 15Py + 15Y - 5.5Px$$

$$Px = 150, Py = 0, Y = 15$$

i) Price elasticity of demand (PED)

To get value of  $Qdx$  substitute  $Px, Py$  and  $Y$  to the demand function

$$Qdx = 2000 + 15 \times 0 + 15 \times 15 - 5.5 \times 150$$

$$Qdx = 2000 + 0 + 225 - 825$$

$$Qdx = 1400 \quad \dots\dots\dots (01\text{mark})$$

$$PED = -\left(\frac{dqx}{dp_x} \times \frac{p_{x0}}{qdx_0}\right) \dots\dots\dots 00\frac{1}{2}\text{mark}$$

$$\frac{dQdx}{dPx} = -5.5 \dots\dots\dots 01 \text{ mark}$$

$$PED = -5.5 \times \frac{p_{x0}}{qdx_0} \dots\dots\dots 00\frac{1}{2}\text{mark}$$

$$P.E.D = -\left(-5.5 \times \frac{150}{1400}\right)$$

$$P.E.D = 0.59$$

Price elasticity of demand = 0.6.....02 marks

ii) Income elasticity of demand (Y.E.D)

$$Y.E.D = \left(\frac{dQdx}{dY} \times \frac{Y_0}{Qdx_0}\right) \dots\dots\dots 01 \text{ mark}$$

$$\frac{dQdx}{dY} = 15$$

$$Y_0 = 15$$

$$Qdx_0 = 1400$$

$$Y.E.D = 15 \times \frac{15}{1400}$$

$$= \frac{225}{1400}$$

$$= 0.16$$

The income elasticity of demand = 0.2.....02 marks

iii) The nature of the commodity is normal good. Since the income elasticity of demand is positive..... (02 marks)

(b) Reasons for regressive supply curve of labour

- i) Preference of leisure for workers
- ii) Target of workers
- iii) Progressive taxation
- iv) Inflation
- v) High wages/ salaries

**Five points @ 02 marks**

4. (a) Reason for the firm to go on producing even if it makes loss
- Maintaining the goodwill of the firm
  - If stand as a branch of a bigger firm
  - If firm is able to cover its variable cost (if it operates above the shutdown point)
  - If firm operate under a short-run period hoping that it can make profit in the long-run
  - If the product that lead to losses stand as an influence in the consumption of other commodities produced by the firm
  - If firm is making research
- (Any 5 points @ 2 marks =10 marks)**

(b) Data given:

$$Q = 70 - 0.5P$$

$$TC = 10 + 5Q^2$$

i) Profit maximizing price and output

From

$$Q = 70 - 0.5P$$

$$P = 140 - 2Q$$

But  $TR = P \times Q$

$$TR = (140 - 2Q) \times Q$$

$$TR = 140Q - 2Q^2$$

$$MR = \frac{\Delta TR}{\Delta Q} = 140 - 4Q$$

Also  $TC = 10 + 5Q^2$

$$MC = \frac{\Delta TC}{\Delta Q} = \frac{dTC}{dQ} = 10Q$$

Maximizing level of price and output:  $MC = MR$

$$10Q = 140 - 4Q$$

$$Q = 10$$

$$P = 140 - 2(10)$$

$$P = 120$$

*Profit maximizing price = 120 and output = 10 units ..... (4 marks)*

ii) Average total cost (ATC) =  $\frac{TC}{Q}$

$$\text{From: } TC = 10 + 5Q^2 = 10 + 5(10^2) = 510$$

$$ATC = \frac{510}{10} = 51$$

$$ATC = 51 \dots\dots\dots (2 \text{ marks})$$

iii) Total revenue (TR) =  $140Q - 2Q^2$

$$TR = 140(10) - 2(10^2) = 1400 - 200$$

$$TR = 1200 \dots\dots\dots (2 \text{ marks})$$

iv) Maximum profit =  $TR - TC$

$$\text{Maximum profit} = (140 - 2Q^2) - (10 + 5Q^2)$$

$$\text{Maximum profit} = 1200 - 510$$

$$\text{Maximum profit} = 690 \dots\dots\dots (2 \text{ marks})$$

5. (a) Group which is likely to be charged higher Price per units is domestic users.

(i) Reasons

This falls under second degree of price discrimination which occur when monopolist is able to charge different prices to different consumers for different quantities used. This is because the company is able to charge commercial users' low price because they consume more unit of electricity than domestic users

–**Relevant reason 2 marks.**

(ii) Necessary condition for charging different prices (**five condition @2 marks**)

- The firm /industry must operate in imperfect competition
- Different consumer group must have different elasticity of demand
- Discrimination is possible when goods are sold at special orders
- Consumers should be un aware of price charged in other markets
- There should be complete agreement among the sellers to avoid resale

(b) Case for monopoly as follows

(i) It avoids wasteful competition.

(ii) It spends little resources in advertising its products

(iii) Gets super normal profits

- Case against monopoly
  - (i) It discourages competition
  - (ii) Exploitation of consumers i.e. charging high price reduces consumers utility.
  - (iii) It leads to in efficiency in production.
  - (iv) Consumer lack freedom of choice
  - (v) It may lead to un employment

Any two points per each case @ 2 marks which makes total of 8 marks.

6. The following are the short comings of using the price index to compare standard of living

- (i) It does not consider non- monetary factors
- (ii) It does not account for the improvement in the quality of goods
- (iii) It considers only few goods
- (iv) It does not consider the introduction of new items
- (v) The substitution biases
- (vi) It considers only few household

Any six points @ 3 marks =18 marks

Conclusion .....1 mark

## 7. -Barriers of privatization

- (i) Weak financial system this is due to small capital marketing
- (ii) Poor infrastructure e.g. roads railways which hinders smooth movement of goods and services from the area of production and area of consumption.
- (iii) Lack of political commitment
- (iv) Bureaucratic procedures.
- (v) Small extent of market
- (vi) Inadequate indigenous participation

### - Argument against privatization

- (i) Increase in social costs
- (ii) Production of essential good may be ignored
- (iii) Unemployment problem will increase
- (iv) Emergence of private monopolies
- (v) Insufficient supplies of public services
- (vi) Capital and profit outflow.
- (vii) It will widen income inequality.

**Any 10 points @ 2 marks = 20**

## 8. Introduction

### **Student required to define the concept of full employment**

Full employment is the state that occurs when all factors of the economy's resources are engaged in the production of output **(1 mark)**

Main body students required to provide any six points on how full employment can be achieved.

### **Ways /conditions of achieving full employment**

- i. There must be adequate expenditures both public and private in order to create sufficient income, demand and hence more investments and hence creation of more employment opportunities.
- ii. The location of industries should also be controlled where by industries are spread over various parts of the country in order to ensure employment opportunities in all areas.
- iii. There must be organized mobility of labor where by labor can easily move both occupationally and geographically, e.g. labor should easily move from a declining to an expanding industry.
- iv. There is also need to control inflation as it affects investments and demands.

- v. There is also need to have appropriate man power planning in order to easily absorb labor in the employment opportunities available.
- vi. There is also need to have continuous career progress among laborers so that they can easily stand the ever-changing structural changes in the economy.
- vii. Expansionary fiscal policy in decreasing Tax rates and monetary policy by increasing the volume of money in circulation.

**Main body—any six points @ 3 marks**

**Conclusion (01 mark)**