

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



FORM SIX PRE-NATIONAL EXAMINATION

151/2

ECONOMICS 2

MARKING SCHEME

1. Regional economic integration in developing countries is undermined by following factors
 - i) Political instabilities that occurs to different countries hinder production and limit cooperation
 - ii) Differences in economic ideologies
 - iii) Fear of loss of custom revenue and limited commitment to member states
 - iv) Poor infrastructure among the members countries
 - v) Similar goods produced by member state limit trade and specialization
 - vi) External influence and interference by developed countries also undermine regional integration

(Any five points@ 2 marks= 10 marks)
2. Five reasons as to why our country continues to rely on loans are as follows
 - i) Limited domestic saving
 - ii) Low tax revenue
 - iii) To fill the persistent budgetary deficits
 - iv) Low exports earning
 - v) To finance long term development projects
 - vi) To solve economics problems like inflations, unemployment, deflation, environmental pollution etc.

(Any five points @ 02 marks=10 marks)
3. (a) The size of National income depends on general Economic efficiency. Discuss using five(5) points

NATIONAL INCOME - refers to the total monetary value of all final goods and service produced by factors of production in a certain country over a period of time usually one

year. Therefore the size of national income depends on general Economic efficiency due to the following reasons

- i) *The stock of natural resources*: The availability of a large stock of natural resources such as minerals, water sources, fertile land and forest resources influence the growth of national income, low stock of natural resources leads to low production, consequently to a low national income.
- ii) *Size of capital stock*: Capital goods help to increase productivity of other factors of production. A country with large stock of capital is able to raise its production levels leading to high size of national income and vice versa is true.
- iii) *The size of skilled labour force*: Labour force is an input used in the production process. A large stock of skilled labour force will be more efficient /productive in course of producing goods and services. The raised productivity may lead to high national income. On the other hand, small stock of skilled labour is associated with small size of national income.
- iv) *Entrepreneurial skills*: An entrepreneur is a person who organizes other factors of production to produce goods and services in the most efficient way. Experienced and skilled entrepreneurs lead to efficient organization of other factors of production leading to greater productivity and hence raise the size of national income. Unexperienced and unskilled entrepreneurs will experience a small size of national income.
- v) *The level of technological advancement*: High technological progress leads to high output from the use of fixed resources. Low level of technology leads to small national income.
- vi) *Government policy*: This is particularly in developing policy such as infrastructure policy and privatization, licensing etc. The more the government policy is complicated the lesser the entrepreneur the lesser the output and hence the lower the national income

Introduction..... (01½ marks)

Main body Any 5 points @ (01½ marks)

Conclusion..... (01 marks)

- i) $GNP_{MP} = NDP_{FC} + \text{Net factor income from abroad} + \text{capital consumption} + \text{indirect tax} - \text{subsidies}$
 $GNP_{MP} = 81429 + (-)201 + 5699 - 2300 = \mathbf{97503}$ (02 marks)
- ii) Private Income = $NNP_{fc} + \text{transfer payments} + \text{interest on public debt} - \text{social security contributions} - \text{income from the government departments} - \text{profits and surpluses of public undertaking}$

$$NNP_{FC} = NI = NDP_{FC} + \text{Net inome from abroad}$$

$$NNP_{FC} = 81429 + (-201) = 81228$$

$$\text{Private income} = 81228 + 1981 + 1271 + 964 - 2333 = \mathbf{83111}$$

(03 marks)

iii) *Personal Income* = private income - Corporate Taxes – Undistributed Corporate Profits

$$\text{Personal Income} = 83111 - 464 - 1251 = \mathbf{81396} \dots\dots (03 \text{ marks})$$

iv) Personal disposable income = PI – direct taxes paid by household

$$\text{Personal disposable income} = 81396 - 2100 = \mathbf{79296} \dots\dots (02 \text{ marks})$$

4. (a) Given that initial deposits = 1,000,000Tsh

Fixed cash ratio = 20%

Required

(i) Credit created = $\frac{\text{Initial deposit}}{\text{Cash ratio}}$ 01 mark

$$= \frac{1,000,000}{20\%}$$

$$\text{Credit created} = 5,000,000 \dots\dots\dots 02 \text{ mark}$$

ii) Credit multiplier = $\frac{\text{credit created}}{\text{initial deposit}}$ 01 mark

$$= \frac{5,000,000}{1,000,000}$$

$$\text{Credit multiplier} = 5 \dots\dots\dots 02 \text{ marks}$$

iii) *Total loans created* = $\frac{\text{inial loans advanced}}{\text{cash ratio}}$ 01 mark

But initial loans advanced = initial deposit – initial cash reserve

$$\text{Initial loans advanced} = 1,000,000 - 20\% \text{ of } 1,000,000 = 800,000 \dots\dots 01 \text{ mark}$$

$$= \frac{800,000}{20\%}$$

$$\text{Total loans advanced} = 4,000,000 \dots\dots\dots 02 \text{ marks}$$

(b) variable reserve has the following limitations

- i) It is discriminatory as it affects different banks differently
- ii) It is inapplicable as it is being fixed by the central bank and applicable to banks located in all regions of the country
- iii) The method is inexact and uncertain since it is not possible to tell how much of active or potential reserve base has been affected by changes in reserve ratio
- iv) It can not be used for day to day and week to week adjustments but rather to bring about large changes in the reserve positions of the commercial banks
- v) Business climate in the economy may be worse such that even if the central bank lowers the minimum reserve ratio will not encourage businessmen to asks for loans

(Any five points @ 2 marks=10)

5. (a) Determine the tax rate paid by individual A,B and C at each level of income

	Tax rate% = $\frac{\text{amount of tax paid}}{\text{income}} \times 100\%$ 01 mark		
	Individual A	Individual B	Individual C
120,000	10	25	4.2
100,000	10	20	5.0
80,000	10	12.5	6.3
60,000	10	10	8.3

@ 0.5 = 06 marks

(b) Individual A: proportional tax system**01 mark**

Individual B: Progressive tax system**01 mark**

Individual C: Regressive tax system**01 mark**

(c) Merits of tax system of individual B

- (i) It yield much greater revenue, hence its more productive
- (ii) its more economical. This is because cost of collection of taxes does not increase when the rate of taxes increases
- (iii) its equitable and promote social justice.
- (iv) It may increase the desire of work
- (v) Its promotes economic stability.

Any five points @ 2 marks = 10 marks

6. Policies to be taken by Tanzania to reduce balance of payment deficits:

- i) Exports promotion through agricultural modernization, encouraging exporters by abolishing export taxes, educating exporters, provision of subsidies to exporters etc.
- ii) Import substitution i.e. production of commodities hat was formerly imported through protecting domestic industries, assisting investors both domestic and foreign etc.
- iii) Seeking for donations from friendly countries.
- iv) Strengthening of economic integration in order to widen export markets.
- v) Encouraging tourism which brings in foreign exchange.
- vi) Strengthening privatization policy to reduce government spending.
- vii) Borrowing from international financial institutions such as WB and IMF.

- viii) Maintenance of peace and security to encourage capital inflow by investors.
- ix) Checking population through family planning to reduce foreign exchange expenditures.

Any six (06) relevant point@3marks=18 (Introduction 1 mark) Conclusion 1 mark) (Total 20 marks)

7. Railway transport refers to the kind of transport that involve movement of goods and passengers from one point to another by the use of train.**01 mark**

The government Tanzania decides to allocates more than five trillion on upgrading railways connecting coastal regions and lake zone due to the following factors

- (i) Its suitable and cheap for transporting bulky commodities from lake zone to central zone where there many industries.
- (ii) Its less affected by unpredictable weather condition
- (iii) It creates direct and indirect employment opportunities to the citizen of Tanzania
- (iv) Also upgraded railway enhances the mobility of labour from central zone to lake zone and vice versa is true.
- (v) Its convenient and fast means of transport since government is upgrading to an electric train that can move very fast and cover long distance with in a short period of time.
- (vi) This means of transport will bridge the gap between producers and consumers.
- (vii) Since many people can be transported at once, the upgraded railway can solve the problem congestion.

Any six(06) points @ 03 marks =18 marks

Conclusion 01 mark

8. Eight measures to improve informal sector in Tanzania.

- i) Encourage microfinance institutions to lend to the informal sector
- ii) Improve rural development
- iii) Provide education training especially adult education
- iv) Carry out research on informal activities
- v) Encourage them to register with government organs
- vi) Encourage them to form associations and co-operatives so as to increase their bargaining power.
- vii) Directing them to operate at certain place rather than depending on open and semi- open areas.
- viii) Exempting some of them from paying taxes so as to them grow

(Any eight points @ 2.5 marks = 20 marks)