

MARKING GUIDE
ECONOMICS 2 2026
SECTION A:

1. Problems faced by economic integration in LDC's

- Political instability: Civil war and political misunderstanding between member countries may hinder development of economic activities.
 - Existence of similar products: Many developing countries produce similar commodities, thereby limiting the scope for trade.
 - Difference in political ideologies and foreign policies: This makes it difficult for member countries to have common objectives.
 - Poor infrastructure, such as roads, railways, etc.
 - Differences in currencies: This makes the prices of goods to change which may cause trade to become more difficult.
 - Low level of commitment by some members, which makes implementation of the objectives of integration difficult.
- A candidate should provide 5 points.

Each point carrying 2 marks.

@ point 2 marks

Total marks = 10 Marks.

2. Policy Measures or Solutions to Improve the Agricultural Sector in Tanzania

- Land reforms policies. This involves improvements in land fertility through the use of organic manure, fertilizers and control of soil erosion.
- Provision of credits and subsidies to farmers. This can help farmers to buy capital equipment like tractors and pay salaries to workers.
- Economic stabilization policies, i.e., controlling prices of agricultural products and exchange rate control.
- Infrastructural development, i.e., construction of roads and railways, and storage facilities.
- Establishment of irrigation schemes to avoid dependence on nature.
- Establishing agro-based industries to widen the market of agricultural products.

A candidate should provide 5 points.

@ point = 2 Marks

Total Marks = 10 Marks

SECTION B 40 marks

3 (a) Information given;

$$I = 20 \text{ million}$$

$$C = 80 + 0.75Y$$

where $I = \text{Investment}$ $C = \text{consumption function}$

Required;

(i) Equilibrium level of income

$$Y = C + I$$

$$C = 80 + 0.75Y$$

$$I = 200$$

Substitute the value of C and I above

$$Y = 80 + 0.75Y + 200$$

$$Y - 0.75Y = 280$$

$$Y = 1120$$

The Equilibrium level of income = 1120 millions *of 1/2 marks*

(ii) How much increase in income will occur as a result of increase in investment by 25 million's

$$\text{Multiplier} = \frac{1}{1 - \text{MPC}} \quad \text{of 1 mark}$$

where MPC = Marginal Propensity to Consume

$$k = \frac{1}{1 - 0.75}$$

$$k = 4$$

Thus with increase in investment by 25 million's

National income will rise by $25 \times 4 = 100$ million's *of 1 mark*

3 (iii) How much increase in investment is needed to raise income by 4000 millions depend on the value of Multiplier and size of MPC.

$$k = \frac{1}{1-MPC}$$

$$k = \frac{1}{1-0.75}$$

$$k = 4 \quad \text{01 mark}$$

Then $k = \frac{\Delta Y}{\Delta I}$

$$\Delta I = \frac{\Delta Y}{k} \quad \text{01 mark}$$

Substitute the value of ΔY and k .

$$\Delta I = \frac{\Delta Y}{k} = \frac{4000}{4}$$

$$\Delta I = 1000$$

Thus investment should be increased by 1000 millions to achieve 4000 Millions 0 1/2 mark

(iv) Given $C = 80 + 0.75Y$

$$C = 80 + 0.75(4000)$$

Thus increase in $C = 3080 \quad \text{0 1/2 mark}$

Saving

$$Y = C + S$$

$$S = Y - C$$

$$S = 4000 - 3080$$

Increase in $S = 920 \quad \text{0 1/2 mark}$

3(b)

The factors affecting circular flow of income

- Saving
- Government expenditure
- Taxation
- Investment
- Foreign trade

2 @ = 10 marks

OR Any relevant point

4 (a) Limitations of Credit Creation by Commercial Banks

- High required reserve deposit ratio. This reduces credit creation, while a low required reserve deposit ratio increases credit creation.
 - Low levels of demand for credit. Low demand limits credit creation due to low levels of saving and investment habits in society.
 - Hoarding. The habit of holding money in hand rather than depositing it in banks results in low credit creation.
 - Lack of collateral securities among borrowers.
- A candidate should provide any 5 relevant points.

@ point = 02 Marks

Total Marks = 10 Marks

(b) Functions of the Bank of Tanzania (B.O.T)

- To issue currency. All currencies in circulation are issued by the central bank.
- Banker to other banks. All commercial banks should have accounts in the central bank.
- Banker to the government in terms of accounts and loans.
- Acts as the lender of last resort.
- Acts as the clearing house for commercial banks.
- Formulates and implements monetary policies in the country.
- Acts as advisor on all financial issues in the country.

A candidate should provide any 5 relevant points.

@ point = 02 Marks

Total Marks = 10 Marks

5. (a) Imagine a world with only two nations A and B.

	cellphone	Potato chips
Country A	2	4
Country B	8	10

i/ Country A has an Absolute advantage in Producing both Product, that is a worker takes two hours to produce a cellphone compared to four hours in Country B. and eight hours to produce a tonne of Potato chips compared to ten hours in Country B. (04 marks). 04 marks

ii/ Provide the of banking one cellphone by the cost of Producing one tonne of Potato chips

- For country A, you can exchange on 2 cellphone for 8 tonnes of chips, so the relative price is

$$\frac{2}{8} = 0.25$$

In Country B, you can exchange 4 cellphone for 10 tonnes of chips, so the relative price is

$$\frac{4}{10} = 0.4 \quad 02 \text{ marks.}$$

Hence, the Price of cellphone compared to chips is smaller in Country A than in Country B.

- Therefore it pays for Country A to specialize in producing cellphones and to buy its chips in Country B

while

- Country B to specialize in Potato chips and to buy cellphone from Country A.

02 marks

5(b)

The need for trade protectionism in LDCs

(i) Revenue argument

ii/ Infant industries argument

iii/ Employment argument

iv) Defence argument

v) Self-sufficient argument

OR Any relevant Point

02 @ = 10 marks

6.

Introduction

Definition of foreign Aid 01 mark

Mainbody:

- Most of the economists argue that aids does not lead to the development but rather creates problems like 01 mark-

(I) Death of local industries

(II) Aid dependency.

(III) Corruption

(IV) African resources exploitation

(V) Neo-colonialism

(VI) Brain-drain

8@ = 18 marks

OR Any relevant point

conclusion

Any relevant conclusion 01 mark.

7.

A candidate should provide any relevant Introduction 01 mark

-The national budget is prepared to perform the following functions. @ = 18 marks.

(i) Resources reallocation

- It helps to distribute resources

(ii) Economic stability

- It is used to avoid business fluctuations to achieve aim of financial stability

(iii) Manages Public enterprises

- Many public sectors are built for the social welfare of the people.

(iv) Economic growth

- It bases on the Roles of utilization of economic resources for economic growth.

(v) Decrease Regional differences

- It balance the taxation and expenditures aiming at diminishing regional imbalances.

OR Any reasonable Point

Conclusion 01 mark.

8. Reasons Why Plans May Fail

A plan is an organized, orderly and focused effort or program of action to achieve a specific end.

A candidate should give any relevant introduction. (01 Mark)

Plans may fail for many reasons as listed below:

- Unrealistic goals. Goals must be realistic, precise, measurable and achievable. Otherwise, they cannot be translated into actionable plans or achieved with certainty.
- Unforeseen events. A plan must accommodate unforeseen events, catastrophes and contingencies since no one can predict the future.
- Monetary and time constraints. The success of any plan depends upon the availability of time and money.
- Lack of expertise and skills. Many plans fail when organizations lose their skilled workers.
- Improper planning. Sometimes plans are hastily drawn without properly identifying priority areas.
- Unexpected changes in the macro-environment. These changes can render plans ineffective and useless.

A candidate should give six points @ 03 Marks each.

Conclusion: 01 Mark

TOTAL MARKS = 20 MARKS

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