

NORTHERN PROVINCE
G.C.E (A/L) Model Examination 2020
21 ECONOMICS
Marking Scheme

1. 2	11. 2	21. 1	31. 5	41. 3
2. 3	12. 4	22. 3	32. 3	42. 1
3. 2	13. 4	23. 1	33. 4	43. 2
4. 1	14. 4	24. 5	34. 4	44. 1
5. 5	15. 2	25. 1	35. 2	45. 2
6. 3	16. 3	26. 3	36. 1	46. 1
7. 4	17. 2	27. 1	37. 2	47. 3
8. 4	18. 4	28. 4	38. 5	48. 3
9. 2	19. 5	29. 1	39. 3	49. 4
10. 5	20. 2	30. 4	40. 2	50. 2

01.

a) The value of the next best alternative forgone (02 marks)

Opportunity cost is sometimes called as real cost or economic cost.

This is not financial cost but it is a real cost.

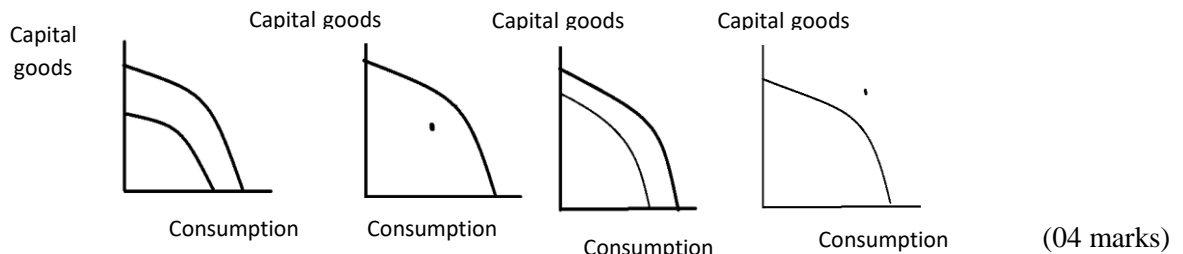
Opportunity cost is connected to the individual. (02 marks)

b) Signaling function
 Incentive function
 Rationing function } with explanation (04 marks)

c) – Impossible estimation of demand
 - Delay in decision taking
 - Disadvantages in planning and communication
 - Declining quality control
 - Insufficient incentives
 - Political intervention and corruption (04 marks)

d) Concave to origin
 Increasing opportunity cost
Reasons
 - Non homogeneous resources
 - The resources efficient for the other industry (04 marks)

e)



02.

a) – Price of the particular good
 - Price of the related goods
 - Consumer income
 - Taste
 - Consumer expectation (04 marks)

- b) Normal good
 There are positive relationship between change in consumer income and change in demand.
 Inferior good
 There are negative relationship between change in income and change in demand
 Geffen
 There are positive relationship between price and quality demanded (04 marks)

- c) PED < 1
 PED = 1
 PED = α
 PED = 0 (04 marks)

- d) 1. Rs 14.00, 72 units (02 marks)
 II. 0.4 (02 marks)
 III. Increase in income
 Price of substitute goods increase
 Price of complementary goods decreases
 Favorable change in taste (04 marks)

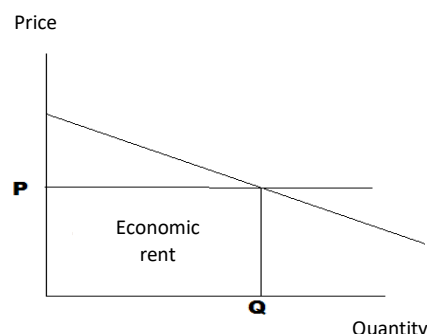
03.

- a) – more number of substitutes
 - Nature of good as luxury
 - The good which is defined as narrowly
 - Large percentage of the income spent on the good
 - More alternative uses of goods (04 marks)
- b) - Accumulation of excess supply
 - Unemployment problem can occur
 - Excess investment
 - Goods can be supplied to consumers at a discounted rate by keeping minimum price as a nominal price (04 marks)
- c) i. Equilibrium price is Rs 30.00
 Equilibrium quantity is 300 units (02 marks)
 ii. excess supply $500 - 100 = 400$ units (02 marks)
 iii. $(60 - 50) \times 100 = 500$
 $\frac{\dots\dots\dots}{2} = 500$
 $(50 - 0) \times 500 = 12500$
 $\frac{\dots\dots\dots}{2} = 12500$
- iv. 16000/=

04.

- a) If an income is earned over and above the minimum payments required to sustain. The business is called economic profit. Here total revenue is greater than the total cost. This additional income is called as economic profit. So economic profit is not included in the total cost. (04 marks)
- b) In short run when the firm is increased its output, the average total cost curve always lies above the average variable cost curve. The vertical distance between AC and AVC is the AFC. (02 marks)
 The average fixed cost is gradually decreases but not equal to zero. When the output increases average total cost curve gets closed to the average cost curve.
 The minimum point of the average total cost curve is situated above the minimum point of AVC due to the fact that total cost is contracted with the sum of AFC and AVC. (02 marks)
- c) When there are at equilibrium, marginal revenue is equal to marginal cost. Here price is Rs 100, but AVC = 110. So price is less than the average variable cost. Whole TFC is covered and part of AVC is able to cover. So the firm leaves from industry. This is a best decision. (04 marks)
- d) – Large number of firms
 - Free entry and exit

- Product differentiation
 - More advertisement (04 marks)
- e) If an income is earned over and above the minimum payments required to maintain a particular production factor at its present use that surplus income is identified as economic rent. (02 marks)
- When factor supply is perfectly inelastic, total factor earnings will consist of economic rent.



(graph-1, explanation-1)

05.

- a) The stage which moves from peak to trough is called recession
 Due to the recession, demand for goods and services will decline. Investment, unemployment will also decrease, recession is occurred in short run.
 The lowest situation of actual output below potential output is called depression. Due to the depression through, production and investment will decline largely and there is severe unemployment. Depression is occurred in long-run (4 marks)
- b) Items that included in the production boundary.
- All goods and services that are produced for institutional units other than for the institution produced
 - All goods and services retained by their producers with themselves having produced them for their own final consumption or for purchasing of capital.
 - The own account production of housing services by owner occupiers.
 - Domestic and personal services performed by paid domestic staff. (4 marks)
- c) Autonomous consumption
 The autonomous consumption is demonstrated by the coefficient of a with the consumption function. The consumption expenditure in zero income is known as autonomous consumption.
 Due to the autonomous consumption, saving will be negative. (1 mark)
 Inducement consumption is higher than the autonomous consumption. When income increases, inducement investment will also increase. (1 mark)
- d) 1. Import 350 (2 marks)
 2. Gross domestic expenditure 1700 (2 marks)
 3. Gross national product 1750 (1mark)
- e) 1. MPC- 0.75 (2 marks)
 2. Increase by 2000 (2 marks)
 3. Increase by 1750 (1mark)

06.

- a) Medium of exchange
 Unit of account
 Store of value
 Differed payment (2 marks)
- b) The direct financial liabilities which supply the basis for the aggregate money supply of a particular country are known as base money. (2 marks)
 Components of base money

- ❖ Notes and coins
- ❖ Currency with commercial bank
- ❖ Deposits of commercial bank with CB
- ❖ Deposits of other government institutions main at CB. (2 marks)

c) 1. Base money

- ❖ Net foreign assets of CB
- ❖ Net domestic assets of CB
- ❖ Net other assets of CB (2 marks)

2. Money multiplier

- ❖ Preference for using money by public
- ❖ Required reserve rate
- ❖ Excess reserves (2 marks)

d) Increase in general price level of goods and services due to an increase in demand relative to supply are meant by demand pull inflation.

Reasons for demand pull inflation

- ❖ Increase in private consumption
- ❖ Increase in investments
- ❖ Increase in government expenditure (2 marks)

The general price level increase due to the increase due to the decrease in supply as a result of the activities of some firms due to increase in the cost of production is called as cost push inflation.

Reasons:-

- ❖ Increase in wages
- ❖ Increase in cost of raw materials (2 marks)

e) 1. 1100 (2 marks)

2. Money multiplier = $\frac{\text{Base money}}{\text{Money supply}} = \frac{1100}{1100} = 1$ (2 marks)

3. 2600 (2 marks)

07. a)

- ❖ Implementing of monetary policy
- ❖ Controlling of exchange rate policy
- ❖ Issuing of currency
- ❖ Management of official foreign reserves
- ❖ Providing of license to primary dealers (4 marks)

b) Controlling of financial instruments to affect over money supply and interest rates to reach economic and price stability along with financial system stability is known as monetary policy. (2 marks)

Monetary policy instruments:-

- Qualitative instruments
- Quantitative instruments (2 marks)

c) Selling securities of central bank at money market on an agreement of repurchasing it is called standards deposit facility rate.

If there is an excess liquidity with money market it can be absorbed through repurchasing.

The limit of call money market interest rate is determined by this. (3 marks)

Purchasing of securities by the central bank on an agreement of reselling is called standing lending facility rate.

If there is a shortage of liquidity within market central bank engage in reselling

Standing lending facility rate shows upper limit of call money market interest rate. (3 marks)

d) Sub market of capital market

- Treasury bonds market
- Corporate bonds market

- Share market (3 marks)
- The main financial instrument which used by the government to obtain medium term and long term loans is known as treasury bonds.
- The market that exchange corporate bonds to find medium and long term funds is called corporate bonds market.
- The market which formulates capital for their business activity by selling shares for the public is known as share market. (3 marks)

08.

- a) Primary reserves of commercial bank
- Cash in hand
 - Cash with the central bank (CB)
 - Cash with other domestic bank
 - Collection of money
 - Cash balance with offshore bank (4 marks)
- b) Creating of multiple deposits by lending excess reserves is known as money creation. (2 marks)
- c) Assumptions
- Any bank does not maintain excess reserves
 - After the deposit is made no inflow of money into the banking system or outflow of money from the banking system
 - All borrowers deposit the total barrowing at another bank (2 marks)

- d) 1. Cash reserve ratio 5% (2 marks)
2. Deposit multiplier= $1/0.05 = 20$ (2 marks)
- 3.5000 billion (2 marks)
4. Money supply 12500 billion (2 marks)

5. Balance sheet

Liability		Assets	
Deposit	10 000	Reserve	500
		Loan	9500
			10000

(2 marks)

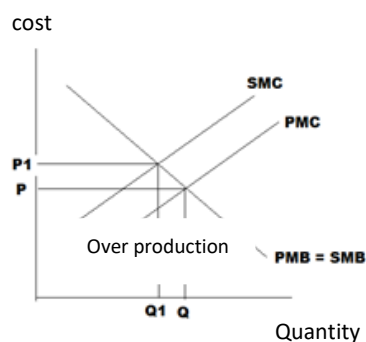
6. People like to keep excess reserves
 Demand for bank loan decrease
 Out flow of money (2 marks)

09.

- a) Inability of market mechanism to distribute scarce resources is called market failure. (2 marks)
- Inefficiency of resource allocation
 - Macro-economic instability
 - In equal distribution of income

- b) Negative externalities are the non-compensated costs borne by an external party which arises with a particular production activity.

c)



Due to the negative externalities, social cost is higher than the private cost. So there are over production. (Q-Q1) (2 marks)

d) When government to correct market failures, It will lead to various forms of inefficiencies and equalities. This situation is identified as government failure.

- Rigidities in government operation
- Political self interest
- Short term vision
- Making of policies on imperfect information (2 marks)

e) – Imposing of environmental taxes

- Issuing license
- Providing subsidies
- Personal bargaining (2 marks)

10.

a) Principles of taxation

- Equity
- Economical
- Convenience
- Certainty
- Efficiency
- Flexibility (4 marks)

b) Economic effect of taxation

- Effect over investment
- Effect over production
- Effect over consumption
- Effect over general price level
- Effect over international trade (4 marks)

c) – encourage expansion of output due to the high demand

- Increasing efficiency of labour due to the increase in expenditure on education
- Increase in investment lead to increase in output
- Increase in new technology lead to increase in output
- Increase in subsidies lead to increase in output (4 marks)

d) The balance obtained after deducting recurrent expenditure and capital expenditure from total revenue including grants. (2 marks)

Overall balance = Govt revenue (including grants) – Govt expenditure

Balance of primary account can be obtained by deducting interest payments from overall balance.

Primary account balance= overall balance- interest payment (2 marks)

e) Large payment of expenditure on goods and services as employee wages (31%)

Interest payment of 38% on current expenditure.

Current transfers of 22% on current expenditure. (2 marks)