NORTHERN PROVINCE
G.C.E (A/L) Model Examination 2019 March
21 ECONOMICS
Marking Scheme

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

Part II

01. Inadequacy of alternative uses of resources to Fulfill human wants of a society is called as scarcity.

(2 marks)

The Problem of Choice Such as what and In what quantities to produce, how to produce and for whom to produce occur due to the scarcity of alternative uses of resources. choice is not made without scarcity of resources.

(2 marks)

II.
- Private ownership of resources - Market economy
- Government ownership of resources - Command economy
- Private and Government ownership of resources - Mixed economy

(4 marks)

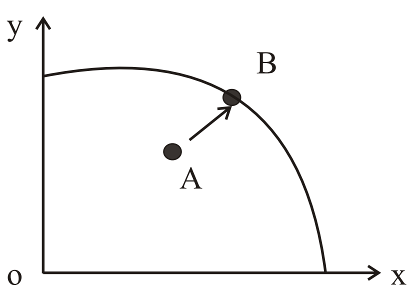
III.
- Economic efficiency
- Economic Growth
- Economic Stability
- External stability
- Equity
- Full employment
- Quality of Environment (1 mark each for any four factors)

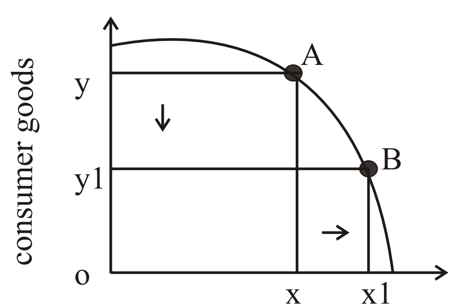
IV. 1. Increase in factor endowment
- New discoveries of resources
- Obtaining new ownership for resources.
- Inflow of resources from foreign countries
- increase in investment

2. Increase in efficiency of resources
- Improvement of technology
- Training to the workers
- New techniques.

(1 mark each for any 2 Factors)

V.





(2 marks for the correct diagram and 2 marks for the correct explanation)

02) 1.
- Decrease in price of related goods.
- Decrease in price of raw materials.
- Improvement of technology
- Increase in number of suppliers
- Cut off of the government taxes

- Providing Subsidien by the government
- Expectation that the price will reduce in the Future.

(04 marks)

ii)
- Nature of the good which is necessity good
- Less number of subsitute
- Percentage of the income spent on the good is low.
- The alternative uses of goods
- The time which take to adjust to the price change is shot run

iii)
- When income of increase, The demand for x also increse, so x is a normal good.
- When income of B increase , The demand for x decrease ,so x is a inferior good.

iv) a. Qd = 120 -5p , QS = -20 + 5P

b. Equilibrium price = Rs. 14.00

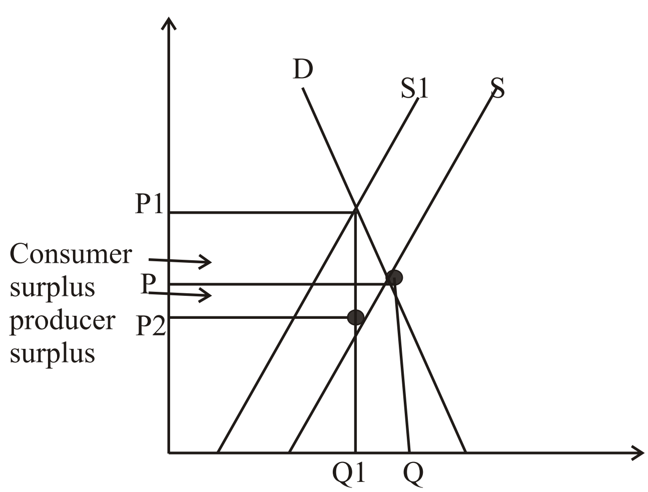
Equilibrium amount = 50 units

c. consumer surplus = Rs.250.00

producer surplus = Rs. 250.00

Economic Surplus = Rs. 500.00

03.



According to the above diagram, more tax burden is consumer ,less tax burden is producer

ii.
- Excess supply of the market
- unemployment problem can occur
- sellers try escape from the low
- affect social wel fare

iii. a - ABCDEF

b - AF

c - CE

iv. a - 200 units

b - Rs 6000

c- 1000

04)

I. Direct cost

The amount of money spent to purchase inpuls from outside of the firm for production process is called direct cost

eg: input purchaasing expenditure

employees salary

(1Marks)

Indirect cost

The opportunity cost of resources owned by the firm which used in production process is called indirect cost.

(1 Marks)

Eg:- Forgone income

Depreciation

Normal profit

ii) Direct cost = Rs. 7800 - 1 marks

Indirecl cost = Rs 3000 - 1 marks

Accounting profit = Total revenue - explicit cost

= 40000 - 7800

= Rs. 32 200.00

iii)
- Property tax
- Insuranc installments
- Interest for capital
- normal profits

(02 marks)

iv)
- Total fixed cost does not change with the output. (1 marks)
- Average fixed cost is obtained by dividing total fixed cost from output.

$$AFC = \frac{TFC}{Q}$$

(1marks)

- So the production increase, Average fixed cost will decrease

(1 Marks)

- When production increase, Average variable cost will also increase.
  So the vertical distant from Arerage total cost to average fixed cost wil decline

(1 marks)

V)
- Technical economies
- Managerial economies
- Marketing economies
- Financial economies
- Risk bearing economies

(2 marks)

VI)
- Ownership of the main raw material
- Legal barriers of government
- Economies of Scale

(2 marks)

VII)
- Limited number if firm
- Barriers to entry and exit
- Product differenciation
- Mutual understanding between firms

(02 Marks)

05.

01. Monetary policy
Fiscal policy
Supply side policy
Income policy
Direct control
Foreign trade policy

(1/2 marks each for any Total marks 02)

02.
- All goods and services that are produced for institutional units other than for the institution produced.
- All goods that are retained by their producers with themselves having produced 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 domen tic staff.
- Weaving cloth, dress making, making Furniture

(2 Marks)

iii. a .Gross Domestic Expenditure = Gross consumption Expenditure + Gross Domestic capital Formation
= 1200

(2 marks)

b. Gross Domestic Product at market Price = Gross Domestic expenditare+ Net export at MP
= 1200 + 150
= 1350

(2 Marks)

c. Change in stock = Gross Domestic capital Formation - (Fixed capital formation + Change in value)
= 500 - (250 +150)
= 150

(2 marks)

IV.
- Change in Consumption Function
- Chang in autonomous purchases
- Change in government purchases
- Change in autonomous taxes
- Change in transfer expenditures.

V. Government expendidture multiplier
Investment multiplier
Tax multiplier
Consumption expenditure multiplier
Transfer multiplier
Balanced budget multiplier

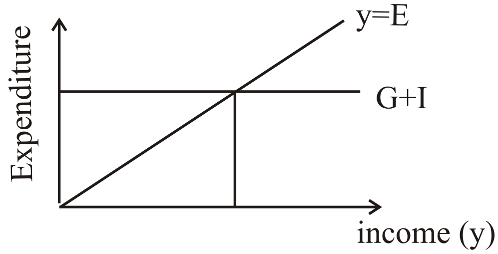
(02 Marks)

VI) a. Y = C+I+G
= 800 + 0.8yd + 400+ 300
= 800 +0.8 (y- 200)+ 700
= 6700

(2Marks)

b. 500 (2Marks)

c.



(2 Marks)

06) i)
Medium of exchange
Store of value
Measure of Account
Differed payment

(04 marks)

ii. Currency held by public
Demand deposit hed by commercial bank
NRFC
FCBU (2marks)

iii. The rational relationship between money sopply and base money is called as money multipier.

$$\text{Money multiplier} = \frac{\text{Money supply}}{\text{High powered money}}$$

(2marks)

IV) a. High powered money = currency held public + commercial bank deposit with central bank
= 2000 +100

=2100

(2 marks)

b. $$\text{money multiplier} = \frac{\text{money supply}}{\text{base money}}$$

$= 2500 / 2100$
$= 1.19$

(2marks)

V) Increase in general price level of goods and services due to an increase in demand relative to supply is meant by demand pull inflaion.

Causes of Demand pull inflation

- increase in privale consumption
- increase in public consumption
- increase in investment
- increase in exports

Cost push inflation theory states that increase in the general price level would be occurred due to the decrease in the aggregate supply due to an increase inputs prices.

Causes of costpush inflation

- increase in input prices
- increase in wages

VI) Total circulation of of currency held by public is called as money Supply.

Total Financial assest of public is a money supply. So This is called as Stock of moeny. components of money supply

i. Narrow money supply
ii. Broad money supply
iii. consolidated broad money supply
iv. extreemly broad money supply

07 1)
i. commercial bank prefer to maintain excess reserve
ii. Decreaseing the demand for bank loans
iii. Flow of currency towards non financial institutions from the banking system

(4marks)

2) a. Rs. 2500 (2marks)

b. Total loans Rs 9500 = 5000 (4 marks)

c.

Liabilities	Assets
Deposit 10 000	Reserve 500
	Loans 9 500
10 000	10 000

(4 marks)

iii. Policy interest rates

- Bank rate
- Standard deposit facitity rate
- Standard lending facility rate
- Opn market operation
- Statutary reserve rate

IV) Influencing the cost of debts and liquidity by changing interest rates and money supply to achieve macro economic stability through the money market is called as monetary policy.

(02 marks)

08) 1)

i. Inefficiency of resource allocation
ii. Macro economic instability
iii. Inequality of income distribution

(4 marks)

2) Positive exlenalities are the non compensated benefits borne by an external party that is not partici pating in a economic activity.

eg:-

- Increase in the productivty of bee hiving due to the main tenance of a flower garden.
- Generating of water sources through a project of forestation.

(04 marks)

3) vertical equity

The need to treat differently for the people with different economic capabilities is called vertical equity.

Horizontal equity

The need to treat equaly for the people with similar economic capabilities called horzontal equity.

4) Recurrent expenditures are the expenditures should macle again and again.
Expenditrres such as trans fer payments and the day to day expenditures at a particular year are included in current expenditures

Eg:- wages of employees
food subsidies
pensions
transpor tation cost

capital expenditures are the expenditures mady to purchae goods that exist normally more than a year and the expenditures made to generate capital resources and the expenditures of resources and the expenditures of reformation of capital

Eg:- pur chasing of machinary
purchasing of vehicles

(4marks)

v) Increase in total debt and interest payment.
Inflation will occure if loan received from banking sector
decrease in private sector loan
social welfare services for people will affect
Increase in demand for loan so interest rate will also increase

(4 marks)

09) 1)
i) Differances in Resoure endoment
ii) DifferentTechnology
iii) Differences in the taste
iv) Diferences in Returns to scale in production
v) Differences in location

(4marks)

2) Argments for favour of protectionism
National Defence
To protect domestic indus tries
To protect infant indus tries
To maintain economic stability.

(2 marks)

Arguments for against to the protiertionsim
Domestic and foreingn market contracted
National income decrease
Production of quality goods canbe decreased. (2marks)

iii) a. Computer - y country
Tea - y country (2marks)
b. Computer - y country
Tea - x country

(4marks)

Before international trade

country	computer	Tea
x	50x20=1000	50x200=10000
y	50x120=6000	50x240=12000

Before trade, country x produce 1000 units of computer 10 000 units of tea.
country y produce 6000 units of computer, and 22 000 units of Tea.

(2 marks)

After trade

country	computer	Tea
x y	- 100x1200=12000	100x200= 20 000 -
Total	12 000	20 000

Total production increase from 20 000 to 32 000 so consumption level will increase in both countries.

(2 marks)

10) 1) The units of imported goods that can be bought from a unit of exported goods is known as terms of trade.

$$\text{Terms of trade} = \frac{\text{export price index}}{\text{import price index}} \times 100$$ (2marks)

To measure the a unit of export to import
To measure the real income of country
To identify the advantages of international trade.

2) Norminal exchange rate is the measurement of change inthe external value of currency by expressing the rate of exchange of the domestic currency with different foreign currencies seperately.

Real exchange rate is the nominal exchange rate adjusted for the changes in the price levels of two countries.

$$\text{real exchange rate} = \frac{\text{Domestic price level}}{\text{Foreign price level}}$$

iii) Goods Account
Service Accounte
primary income Account
Secondary income Account

IV) exports good 's price will decrease so exports will increase.
price of import will increase so imports will decrease.

export income increase and import expenditure will decrease. so balance to payment problem will be solved.

V) External stability is a key role of a goverment in an attempt to promote sustainability on the external accounts.

External stability can be achieve when export income is sufficient to finance import expenditure. so that a country an service its foreign liabilites in the medium to long run and avoid exchange rate volatility.

There fore external stability requires that a country's overall external payments be in ballance without no official financing

There is no direct measure mont of external stability but rather indicators that can deternine the state of the external sector suchas the current account deficit as a percentage of GDp. net foregn liabilities as a percentage of GDP and the position of the exchage rate.

(4 marks)