

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

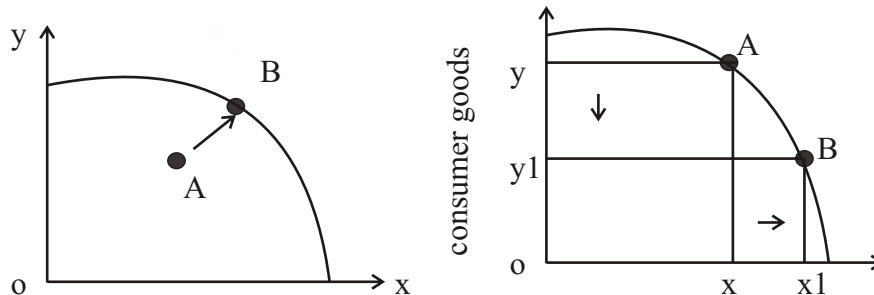
- New discoveries of resources
- Obtaining new ownership for resources.
- Inflow of resources from foreign countries
- increase in investment

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

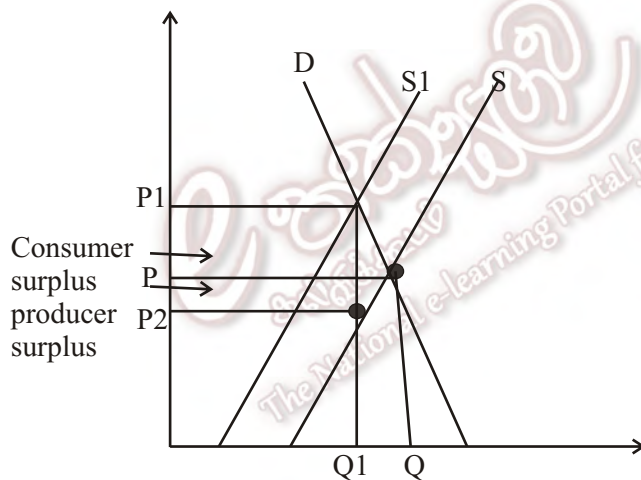
- Providing Subsidien by the government
- Expectation that the price will reduce in the Future.

(04 marks)

- ii) ● Nature of the good which is necessity good
 ● Less number of substitute
 ● 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. $Q_d = 120 - 5p$, $Q_s = -20 + 5P$
 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 inputs from outside of the firm for production process is called direct cost

eg: input purchasing expenditure
employees salary

(1 Marks)

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

Indirect cost = Rs 3000 -

1 marks

Accounting profit = Total revenue - explicit cost

$$= 40000 - 7800$$

$$= \text{Rs. } 32\,200.00$$

- iii) ● Property tax
● Insurance 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.

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

(1 marks)

- So the production increase, Average fixed cost will decrease

(1 Marks)

- When production increase, Average variable cost will also increase.
So the vertical distance from Average total cost to average fixed cost will 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 of firms
 ● Barriers to entry and exit
 ● Product differentiation
 ● 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 domestic staff.
 - Weaving cloth, dress making, making Furniture

(2 Marks)

iii. a. $\text{Gross Domestic Expenditure} = \text{Gross Domestic Expenditure} + \text{Gross Domestic capital Formation}$
 $= 1200$

(2 marks)

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

(2 Marks)

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

(2 marks)

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

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

(02 Marks)

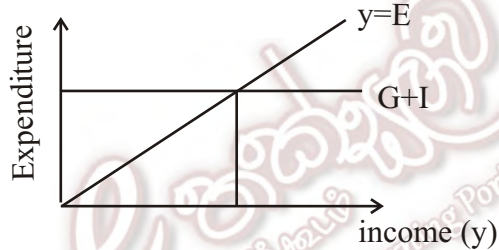
VI) a. $Y = C+I+G$
 $= 800 + 0.8y_d + 400 + 300$
 $= 800 + 0.8(y - 200) + 700$
 $= 6700$

(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 supply and base money is called as money multiplier.

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

(2marks)

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

$$= 2000 + 100$$

=2100

(2 marks)

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

$$= \frac{2500}{2100}$$
$$= 1.19$$

(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 inflation.

Causes of Demand pull inflation

- increase in private 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 in input prices.

Causes of cost push inflation

- increase in input prices
- increase in wages

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

Total financial asset of public is a money supply. So this is called as stock of money. components of money supply

- i. Narrow money supply
- ii. Broad money supply
- iii. consolidated broad money supply
- iv. extremely broad money supply

071)

- i. commercial bank prefer to maintain excess reserve
- ii. Decreasing 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
<u>10 000</u>	Loans <u>9 500</u>
10 000	10 000

(4 marks)

iii. Policy interest rates

- Bank rate
- Standard deposit facility rate
- Standard lending facility rate
- Open market operation
- Statutory 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)

- Inefficiency of resource allocation
- Macro economic instability
- Inequality of income distribution

(4 marks)

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

eg:-

- Increase in the productivity of bee hiving due to the maintenance 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 equally for the people with similar economic capabilities called horizontal equity.

4) Recurrent expenditures are the expenditures should made again and again.

Expenditures such as transfer payments and the day to day expenditures at a particular year are included in current expenditures

Eg:- wages of employees

food subsidies

pensions

transportation cost

capital expenditures are the expenditures made to purchase 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:- purchasing of machinery

purchasing of vehicles

(4marks)

- v) Increase in total debt and interest payment.
 Inflation will occur 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) Differences in Resource endowment
- ii) Different Technology
- iii) Differences in the taste
- iv) Differences in Returns to scale in production
- v) Differences in location

(4marks)

2) Arguments for favour of protectionism

- National Defence
- To protect domestic industries
- To protect infant industries
- To maintain economic stability.

(2 marks)

Arguments for against to the protectionism

- Domestic and foreign market contracted
- National income decrease
- Production of quality goods can be decreased.

(2marks)

iii) a. Computer - y country

Tea - x country

(2marks)

b. Computer - y country

Tea - x country

(4marks)

Before international trade

country	computer	Tea
x	$50 \times 20 = 1000$	$50 \times 200 = 10000$
y	$50 \times 120 = 6000$	$50 \times 240 = 12000$

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	-	100x200= 20 000
y	100x1200=12000	-
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.

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

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 in the external value of currency by expressing the rate of exchange of the domestic currency with different foreign currencies separately.

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 Account
- 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 government in an attempt to promote sustainability on the external accounts.

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

Therefore external stability requires that a country's overall external payments be in balance without any official financing.

There is no direct measure of external stability but rather indicators that can determine the state of the external sector such as the current account deficit as a percentage of GDP, net foreign liabilities as a percentage of GDP and the position of the exchange rate.

(4 marks)

