P220/1 ECONOMICS PAPER ONE S.5 Nov 2013

SECTION A

1(a)(i) Capital is the all man-made resources that ~~are~~ are used in the production of other goods and services eg machinery, tools.
1 Mark

(ii) Traits of capital as a factor
- Produced by man.
- Passive factor until mobilised by the entrepreneur
- Can depreciate / appreciate
- It is destructible / can become useless overtime.
- More mobile than other FOP in Long run.
- It is stored up labour - arises due to savings of people.

Any 3x1 = 3Mks

(b)(i) Quasi rent - are the economic rent or earnings of a factor over and above the supply price due to its inelasticity in supply in the short run. 1 Mark

While

Economic rent is the earning of a factor over and above its transfer earnings / supply price. 1 Mark

(ii) Foot-loose industries are those industries that can be located anywhere, have no specific site 1 Mark

While

Weight losing industries - those where the raw materials lose weight in pdn process. The final product is lighter than the inputs / raw materials. 1 Mark (c)(i) <u>Standard of living</u> – the way in which people live/ aspire to ~~live~~ in relation to their access to goods and services. 1 Mark

<u>While</u>

<u>Cost of living</u> is the amount of money required by an individual / household to purchase a given quantity / basket of goods and services

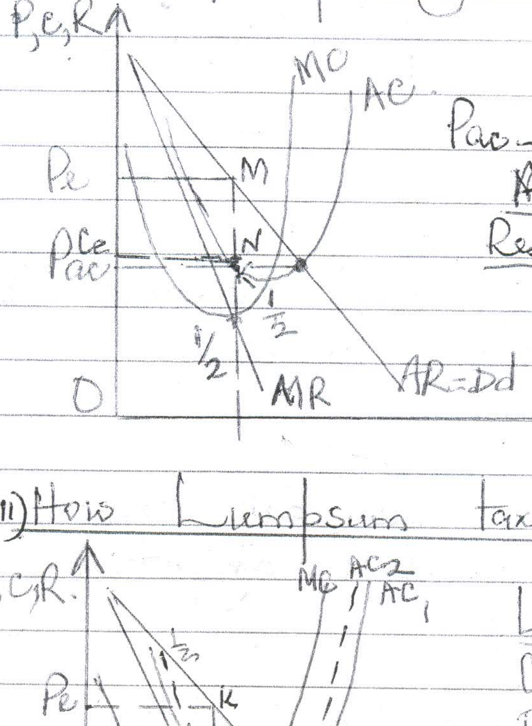
<u>OR</u>

Amount of money needed by an individual household to <u>sustain a given life style</u> or Standard of living 1 Mark

(ii) <u>Relationship</u>

High general price level lead to high cost of living and low price level leads to low ~~Sta~~ Cost of living since the standard basket ~~of~~ goods is affordable. 2 Mks

(d)(i) <u>How A/C pricing Controls Monopoly</u>



Pac – Average Cost pricing where AC = AR. ½

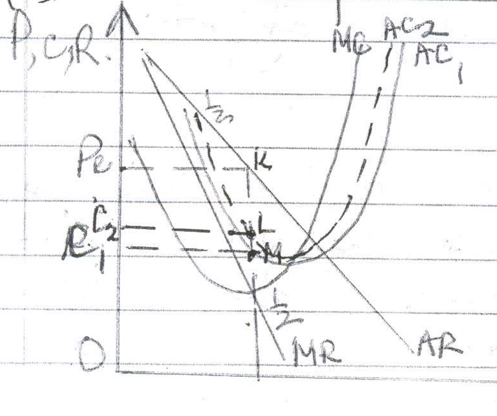
<u>Reduces Profits</u> from PeMNCe to PacKNCe. ½

(2 Mks) TOTAL

Correct diag = 1 Mk

Footnote = 1 Mk

(ii) <u>How Lumpsum tax controls Monopoly</u>



<u>Lumpsum tax raises AC Curve from AC_1 to AC_2</u>. ½

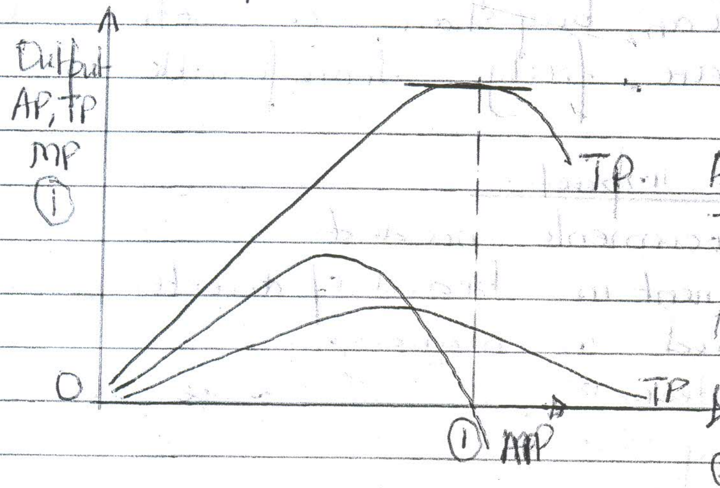
<u>Reduces profits</u> from $PeKMC_1$ to $PeKLC_2$ ½

Correct diag = 1 Mk

Footnote = 1 Mk

(k) (I) MP — The output added on TP / additional output arising from the employment of one additional Unit of a given factor or one additional Unit of input. 1 Mark.

(II) Relationship of MP, TP and AP.



AP = MP when AP at Max
TP at Max when MP = Zero
MP reaches Max before AP. 1 Mk
Any 1.

2 Marks diag
1 Mark footnote

SECTION B

2(a) Capital of a firm tends to be immobile

1 Specificity of the capital
2 High / prohibitive costs of transport.
3 Capital fixed in nature eg oil derricks, building.
4 Low payment in alternative use.
5 High costs involved in changing use.
6 Unfavourable government policy regarding mobility of capital eg patent rights
7 Some capital is bulky so its inconvenient to move

(Explain not outline) Any 3 x 2 = 6 Marks.

b) Impact of Public Limited Cos

(1) Limited liability of shareholders
2 Perpetual success / Continuity

3. Able to raise alot of capital
4. Easily get access to loans due to collateral
5. Is a legal entity.
6. Possible to specialise and employ specialists
7. Enjoy high profit margins
8. Publicity of records protect Shareholders Vs fraud.
9. Employees can buy shares as motivation to work harder
10. Shares are freely transferrable

Any 7x1= 7Mks

Negative impact.

1. Many documents needed.
2. Management in board of directors, shareholders are not involved in management.
3. Slow decision making since meetings have to be called
4. Company records are made public so no secrecy
5. Company's income is double taxed.
6. Likelihood of diseconomies of scale
7. Lack of personal initiatives on side of board of directors (have no direct interest; just work)
8. Profits shared; are of low amounts & this kills incentive
9. No personal Contact between owners and Customers and employees.
10. Cannot carry out any other business except the one registered for.

Any 7x1= 7Mks

3(a) Increase in SS – Increase in the amount of goods & services put on the market for sale as a result of positive changes in the factors that influence supply besides price

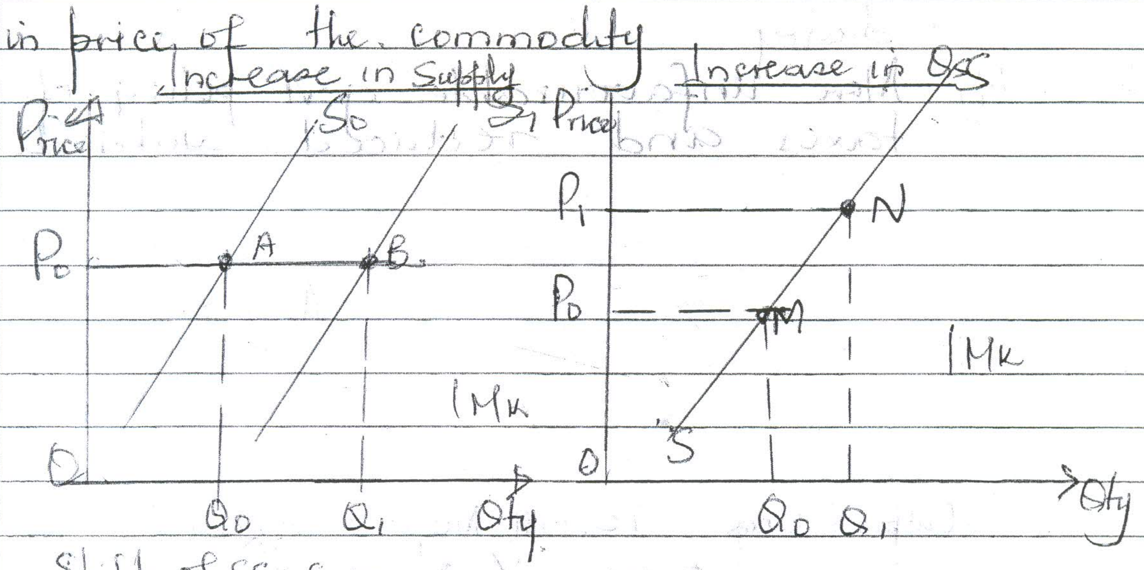
1 Mark

While

Increase in Qs – Increase in the amount of a commodity put on the market for sale at a given point of time due to increase

1 Mark

in price of the commodity



Shift of SS curve from S0 S1 leads to ↑ ~~Sale~~ in output from Q_0 to Q_1 at Constant Price

Increase in Price from P_0 to P_1 leads to increase in Qs from Q_0 to Q_1

(b) Account for Decrease in Ss for a Commodity

1 Increase in Costs of Production / Increase in factor Costs
2 Reduction in number of Producers
3 Increase in prices of competitive commodities
4 Decrease in prices of joint products
5 Expectation of reduction in price of the commodity
6 Change ~~in~~ objectives of the firm from profit maximisation to sales maximisation
7 Decline in level of technology used
8 Decline in state of Infrastructure or infrastructural breakdown.
9 More unfavourable / occurance of more unfavourable natural factors
10 Decline in / Deterioration in working conditions of labour
11 Ditirioration in political climate
12 Decrease in size of market for the product
13 More blocked entry of firms into the

Industry

14 More unfavourable govt policy of increased taxes and reduced subsidies

Any 8 x 2 = 16 Marks
1 Mark - Point
1 Mark - explanation

4.

Output in Boxes	TC in $	MC in $ (i)	AVC in $ (ii)	AFC $ (iii)
0	2000	✓ —	—	—
1	3200	✓ 1200	1200	2000
2	4000	✓ 800	2000	1000
3	~~4~~4600	✓ 600	866.7	666.7
4	5000	✓ 400	750	500
5	5250	✓ 250	650	400
6	6000	✓ 750	666.7	333.3
7	7000	✓ 1000	714.28	285.7
		4 Mks @ ½ Mk	4 Mks @ ½ Mk	4 Marks @ ½ Mark

4 x 3 = 12 Marks

(iv) If MR = 750 $
Equilibrium is where MC = MR 2 Mks
So equilibrium output is 6 boxes. 2 Mks

(v) Average Cost Curves are 'U' shaped in Short run due to the operation of diminishing returns. 2 Mks
Average Cost Curves are "U" Shaped in Long run due to economies and diseconomies of scale. 2 Marks

Total = 20 Marks

5 (a) Benefits of delocalisation.
1 Creation of equitable employment opportunities
2 Utilisation of cheap labour in all areas.
3 Reduction in rural urban migration.
4 Equitable regional development.
5 Economic transformation - reduction in subsistence to commercialised production in all areas.
6 Fairer distribution of infrastructure in all regions
7. Increased output due to more linkages created where industries are established.
8. Fair distribution of Costs and benefits Any 6x1 = 6 Marks
9. Reduces Social Costs and negative externalities.

Merits of localisation.
1 Development of the area.
2 Economies of linked process / specialisation and division of labour.
3 Development of infrastructure in the localised area.
4 Employment opportunities widen
5 Enjoyment of external economies of scale by the firms
6 Encourages forwards, backwards linkages
7 Leads to creation of reservoir of skilled labour.
8 Compels government to address other issues / provide amenities and other facilities eg warehouses, water etc.

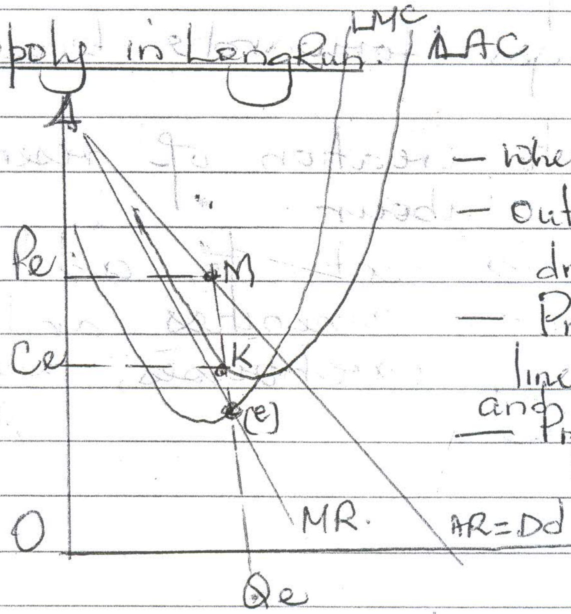
Any 6x1=6 Marks

Demerits.

1. Regional imbalance
2. Intensifies Rural-urban Migration
3. High external economies of scale are experienced
4. Leads to unemployment when Industry declines
5. Creates regional dependence - prone to suffer when wars, floods, Strikes etc occur.
6. Leads to problem of income inequalities between those in Industrialised area and those not.
7. High Cost of living in localised area.
8. Overstraining of infrastructure in localised area.
9. Displacement of people as industry expands
10. High Social Costs in localised area.
11. High Costs of production due to high competition for land, labour, raw materials.

Any 8 x 2 = 16 Mks.

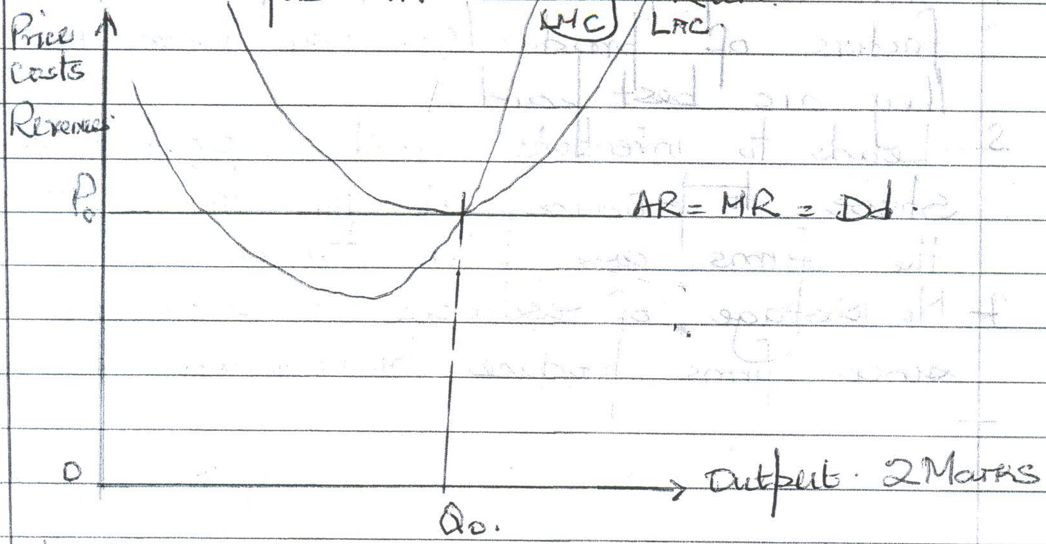
6(a) Monopoly in Long Run:



- where LMC = MR (e) 1
- Output is OQe when line dropped from (e) 1
- Price to OPe - when o/p line meets Dd curve at M and extended. 1
- Profits are Super normal 1 indicated by CePe MK 1 since AR > AC for equilibrium output. 1

Diagram = 2 Marks

6(a) Perfectly competitive firm and output, Price and Profits in Long Run.



In Long run the firms that are inefficient leave the industry so that the ones left are ~~inefficient~~ efficient, Others enter the Industry and ~~break~~ output increase

Output is determined where MC (1) = MR and the line is extended to the X-axis to get output OQ_0 (1); Price is determined (1) where the output line (Supply) meets the AR = Dd (Demand Curve) and it is ~~output~~ Price OP_0 (1). At this level, profits are (1) normal since AC = AR (1) for equilibrium output.

8 Marks in all.

b) Implications of Perfect Competition

1. High quality output for Consumers
2. Consumers buy goods at relatively stable prices
3. There is high output on the market due to many firms
4. Leads to fair distribution of income - many sellers, free entry of firms, all earn normal profits
5. Ensures utilisation of idle resources / Optimal full utilisation of resources; optimal
6. Provides efficient standard for comparison of

price determination.

7. There is proper allocation of firms since factors of production can move to where they are best paid.

8. Leads to inventions and innovations as firms strive to produce at the lowest AC since the firms are price takers.

9. No wastage of resources on persuasive advertising since firms produce homogeneous products

Any 6x1 = 6 Marks

Disadvantages / Negative implications

1. It cannot eliminate natural monopolies and business ownership of capital.

2. There is limited choice of commodities because the product produced is homogeneous.

3. It is difficult to expand because they (The firms) only earn normal profits in Long Run.

4. There is duplication of services / economic activities because of many firms thus wastage of resources.

5. Unemployment arises when some inefficient firms fall out of the market in Long run.

6. There is limited expansion of firms so firms don't enjoy economies of scale.

7. Assumes ideal market conditions which do not exist in real life situations

8. Limited profits / Normal profits limit research and Innovations

Any 6x1 = 6 Marks

7(a). Aggregate demand is the total demand for goods and services in an economy / It is the total expenditure on goods and services / Total expenditure on goods and services by all the sectors in the economy.
2 Marks

While

Aggregate supply is the Total output of all goods and services from all sectors in the economy
2 Marks.

(b) Determinants of aggregate demand
1. Level of commercialisation.
2. Size of population.
3. Distribution of incomes.
4. Price level of commodities
5. Level of supply of Consumer goods and services
6. Amount of money supply.
7. Level of taxation.
8 Tastes and Preferences of individuals

Any 6x1= 6 Marks.

(c) Measures to increase level of GDP of a country.
1 Increase in the level of savings.
2 Improvement in entrepreneurial ability.
3 Improvement on the techniques of production.
4 Improving on the peoples' attitude towards work
5 Increasing / Improving on the level of accountability.
6 Improving on training and skills of the labour force.
7 Enlargement of both internal and external markets
8 Improvement in the land tenure system
9 Ensuring more price stability / reduction in price instabilities
10 Expansion and improvement of infrastructure.
11 Increasing on the level of monetisation
12 Reduction in the Population growth rate
13 Expansion and increase in exploitation of natural resources