MARKING GUIDE

GHS **ECONOMICS 220/2** **S.5**

TIME: 3 HOURS **NOV'2013**

INSTRUCTIONS: Section A is compulsory. Choose four (4) other questions in section B

SECTION A

1. a) i) Distinguish between "effective demand" and "derived demand"

Effective demand is the desire/~~willing~~ willingness by an individual to buy a commodity combined with his/her ability to pay for it at a given time.

Or

The amount of a commodity an individual is willing and able to pay for at a given time

1 MRK

Whereas

Derived demand is the demand for a factor of production that arises due to the demand for what it helps to produce.

1 MRK

ii) Give any two factors that limit effective demand in your country.

1. Low income/poverty
2. High prices of the commodity
3. Unfavourable government policy
4. High indirect taxation (on goods)
5. Poor quality of the commodity.
6. Low level of advertising/awareness of the commodity.
7. Existence of cheaper substitutes

(ANY 2 ×1 = 02marks)

b) i) Distinguish between producer's surplus and Consumer's surplus

Producers' surplus is the amount a producer receives over and above the supply price of a commodity. **(1 MRK)**

Whereas

Consumers' surplus is the amount a consumer is willing to pay over and above the market price for a commodity. **(1 MRK)**

ii) Given that the market price of a commodity is Uganda SHS 650,000, calculate the producer's surplus in the table below.

Price UGX	30,000	35,000	40,000	45,000	50,000	55,000	60,000	65,000
Supply	1	2	3	4	5	6	7	8

Producer surplus = Market price – Minimum price

= (65000-30000)+(65000-350000)+(65000-40000)+(65000-45000)+(65000-50000)+(65000-55000)+(65000-60000)+(65000-65000)

=35000+30000+25000+20000+15000+10000+5000+0

= 140000/=

OR

(65000*8) - (30000+35000+40000+45000+50000+55000+60000+65000)

520000 – 380000

= 140000/=

FORMULA 1 MRK

ANSWER 1 MRK

c) i) Distinguish between economic profits and Normal profits.

Economic profits are the earnings enjoyed by a firm in excess of total costs that encourage new firms to join the industry. **1 MRK**

Whereas

Normal profit is the return the entrepreneur earns that is just enough to keep him in the present line of production without inducing new firms to enter the industry because the firm's average revenue is just equal to its average cost. **1 MRK**

ii) Mention any two factors that influence the level of profits in your country.

1. The general Price levels
2. The costs of production.
3. Goal of the producer or entrepreneur
4. Entrepreneurial Entrepreneur skills or organizational ability
5. Degree of risks involved
6. Level of output or supply
7. Size of market or demand for the product
8. Ease of entry into the industry or number of firms in an industry or level of competition

ANY 2 × 1 = 2 MRKS

d) How is NNP at market prices derived from GDP at factor cost?

NNP at market price = GDP at factor cost + net factor incomes from abroad + indirect taxes – subsidies - depreciation

Or

NNP mp = GDP fc + income of nationals abroad – income of foreigners in the country + net indirect taxes – depreciation **4 MARKS OR ZERO**

e) State four negative effects of a large subsistence sector in your country

1. The quality of output is low due to absence of competition and use of rudimentary tools.
2. Low tax base in the economy because hardly any income to be taxed is generated through direct production.
3. It perpetuates dualism in the economy as those engaged in direct production lag behind those engaged in commercial activities.
4. It fosters technological backwardness and stagnation in the economy due to low level of research and innovation associated with direct production.
5. Low level of employment is created because of the small scale nature of production that provides only few job opportunities.
6. It hinders transformation and modernisation of rural areas where direct production is mainly done since it is associated with low productivity and technological backwardness.
7. It is associated with underemployment since labour and other resources are underutilized.
8. It makes valuation of National income difficult since the bulk of output is not marketed and information on such output is lacking.

ANY 2×1 = 2 MRKS

SECTION B (80 MARKS)

1. **a) Account for the fluctuations of prices of primary agricultural products in your country.**

1. Primary Agricultural production depends a lot on natural factors
2. Long gestation period.
3. The divergence between planned and actual output levels.
4. The bulkiness of agricultural products.
5. The high perishability of primary agricultural products.
6. The high Competition between the many producers of primary agriculture products.
7. Poor transport and communication system (poor surplus disposal machinery).
8. High competition with synthetic products which are good substitutes of the primary agricultural products.
9. The low income elasticity of demand for primary agriculture exports.
10. Agricultural products form a small proportion of the inputs of the manufacturing sector.
11. Frequent Changes in costs of production in the agriculture sector.
12. Weak bargaining power of farmers and exporters of primary agriculture products on the international market.
13. Weak agricultural commodity agreements.
14. Primary agricultural products have low price elasticity of demand.
15. The raw-material saving innovations in MDCs as markets.

10× 1 = 10 MRKS

b) What are the effects of the fluctuations of prices of primary agricultural products in your country?

1. Unstable terms of trade as prices of primary agricultural exports fluctuate from time to time; the terms of trade are favourable in times of high primary agriculture export prices, and become unfavourable when the prices are low.
2. Instabilities in the balance of payments position of an economy because of fluctuations in the foreign exchange earnings.
3. Instabilities in the incomes of farmers leading to decline in their standard of living.
4. The fluctuations in prices of agricultural commodities worsen income inequality between the workers in the agricultural sector and those in the industrial sector.
5. Fluctuations in the government revenue occur because of the fluctuations in tax yields from the agricultural sector fluctuate due to fluctuation in taxable income.
6. Discourage individuals from investing in the agricultural sector due to instability and uncertainty of income. Low investment leads to low levels of employment, output and slow rate of economic growth.
7. Rural urban migration. Large numbers of people leave rural areas for urban areas discouraged by the low and fluctuating income in the agriculture sector in search for better paying and more stable employment.
8. fluctuations in the country's power to import capital goods, inputs, medicine and the like because of the fluctuations in foreign exchange levels arising from fluctuations in the prices of agriculture exports.
9. Instability in foreign exchange rates. This is so because of the instability in foreign exchange earnings bringing about shortages and surpluses in supply of foreign exchange. This in turn affects local transactions and the international trade transactions of the country.
10. Difficult to do long term (projected) planning by the government because the government cannot predict in advance, its agricultural export earnings on which the economy largely depends.
11. Instabilities in the output and activities of the agro based industries.
12. Price fluctuations fuel speculation in the economy. This arises because of uncertainty in the agriculture sector and the economy in general which enhances irrational allocation of resources.
13. Increase in government expenditure on stabilization funds and other subsidization measures.

10×1 = 10 MRKS

2. a) Distinguish between competitive supply and joint supply.

Competitive supply is the supply of two or more commodities that use the same resources for their production, such that an increase in supply of one product leads to a decline in the supply/production of the other. **2 MRKS**

Whereas

Joint supply is the supply of two or more commodities from the same process of production/same source/same resources such that an increase in the supply of the other.

2 MRKS

b) **Explain the factors that cause low production and supply of goods and services of firms in your country.**

1. Poor political climate
2. Poor infrastructure
3. High rate of inflation
4. High level of taxation
5. The small market for goods and services
6. The low level of technology used.
7. Limited availability of factor inputs
8. Use of unskilled labour
9. Poor natural conditions/occurrence of natural disasters such as floods.
10. Fluctuations of prices that discourage investments
11. Low entrepreneurial skills
12. Limited funds for investment
13. High level of subsistence production/low level of monetisation
14. High costs of production
15.

8× 2 = 16 MRKS

3. a) Why is National income statistics computed in your country?

1. To show the level of economic wellbeing of the people in the economy, a high level of per capita income implies that the average person in the economy is well-off while a low per capita income implies that the average person is worse-off.
2. To show the trend of change in standard of living of the people in a country over time.
3. To show the rate and trend of economic growth or decline of a country over time, an increase in the level of national income is an indicator of economic growth, whereas a reduction in national income indicates economic decline.
4. To show figures of level of savings, consumption and investment in the different sectors of the economy on which information, sound economic development planning is based.
5. To measure the level of economic development; assuming other factors constant, persistent increase in national income over time leads to economic development due to an improvement in welfare as measured by the change in income per capita.
6. To do national policy analysis, to determine the impact of certain economic policies by comparing the National income statistics before and after the policy was put in place

7. to identify the leading sectors in the economy because they show output from each of the sectors of the economy;
8. To indicate the amount of income generated in each of the sectors in the economy.
9. To show income distribution in the economy among the owners of factors of production because the statistics indicate the relative incomes generated in each sector and region, this information is used by government to take up appropriate action concerning income distribution.
10. To show the extent of a country's economic dependence in terms of sectoral dependence, geographical concentration of trade and commodity concentration of trade.
11. To show the level of international transactions and the balance of payment position of a country.
12. To be used by government when appealing for international aid because international donors and lenders usually look at national income statistics to identify the areas or sectors in which they can help.
13. To compare a country's economic performance over time and in relation to other countries.
14. To show relative performance of the different sectors of the economy which clearly indicate those lagging behind others which information is used as the basis for planning for each of the sectors.
15. To be used in the preparation of the national budget. The budget is prepared based on the information regarding consumption, saving, and investments which are all provided by the national income estimates.

10× 1 = 10 MRKS

b) Explain the obstacles to effective National income accounting in your country.

1. Inadequate data. There is a general lack of adequate information concerning production and incomes especially in the private sector in developing economies yet reliable information is needed to come up with realistic National income figures.
2. The problem of double counting. Double counting arises when the value of a given output is added more than once to the value of total output which results in exaggerating the national income figures.
3. Difficulty in calculating depreciation. The value of depreciation of capital should be determined in order to compute the net National income yet it is difficult to estimate the value of wear and tear of capital in monetary terms overtime.
4. Difficulty of valuation of subsistence output therefore, Such goods and services produced in the non-monetised sector should be included in accounting of national income, but the absence of data about the volume of output and market price of these commodities makes this inclusion very difficult, the value of output from the subsistence sector is usually imputed (arbitrarily assigned) which leads to wrong national income statistics.
5. Problem of price changes which tends to change the level of national income without actual change in output therefore giving unrealistic income figures. Increases in prices tend to exaggerate the national income figures whereas persistent fall in prices tend to deflate the national income figures.

6. Difficulty of calculation of income from abroad. This is due to inability to know the actual incomes or investments of nationals abroad.
7. Difficulty of valuing government services. Government carries out expenditure in different areas some of which remains confidential, yet some of government expenditure is in form of transfer payments which should not be part of national income estimates.
8. The problem of errors of omission (exclusion due to over sight or slip) and commission (inclusion of data erroneously) of figures. This leads to compiling wrong national income figures.
9. The difficulty of valuing unpaid for services such as those of housewives,
10. The problem of valuing Inventories. Inventories are commodities that remain unsold at the end of the year.
11. The Conceptual problems include the following;
12. The problem of determining the boundary of production.
13. The problem of work in progress. Which constitute national income, but it is not clear whether to include them in the current national accounting or it is income for the previous period.
14. The problem of illegal activities.
15. The problem of distinguishing between transfer payments and income from productive activities, yet transfer payments must not be included in the National income estimated to avoid double counting because they have already been recorded as earnings to others who then transfer that income to beneficiaries without value output produced in return.
16. The difficulty of distinguishing between finished goods and intermediate goods

10×1 = 10 MRKS

4. a) Distinguish between "incomes per capita" and "disposable income".

Income per capita is the average income in an economy in a given time period.

Or

Income per capita is the income per person in an economy in a given time period

2 MARKS

Whereas

Disposable income is the amount of money that individuals have available for spending and saving after all compulsory payments such as personal (direct) taxes and social security contributions are paid from the personal income. **2 MARKS**

b) What are the limitations of using income per capita as a measure of change in the standard of living overtime in your country?

1. Income per capita does not reflect effects of changes in the price level of goods and services in the country over a period of time on standard of living, yet changes in the general price level

cause changes in standard of living due to changes in cost of living and purchasing power of individuals'

2. Income per capita does not reflect effects of changes in the distribution of income in the country over time on standard of living. An increase in per capita income overtime may be realised but accompanied by a widening income gap resulting in worsening standard of living of the majority of the people.
3. Income per capita does not reflect effects of changes in the nature of goods and services produced in the country over time on standard of living. Some goods do not directly influence standard of living while others do.
4. Income per capita does not reflect effects of changes in the size of the subsistence sector over time on standard of living. Yet these changes directly affect the size of national income figures and standard of living.
5. Income per capita does not reflect effects of changes in the availability of information overtime on the level of national income. When information is more readily available overtime, higher income figures are recorded than when information was not readily available
6. Income per capita does not reflect changes in the basic requirements in the country over time. As these requirements change, the level of standard of living changes regardless of changes in the level of national income per person.
7. Income per capita does not reflect changes in the boundary of production overtime. As the boundary changes, some goods are included in the basket while others are excluded which directly influence standard of living.
8. Income per capita does not reflect effects of changes in the level of unemployment in the country overtime on the standard of living. Standard of living changes overtime basing directly on changes in the level of unemployment overtime.
9. Income per capita does not reflect effects of changes in the number of working hours in the country on standard of living. As the number of working hours increases or reduces overtime, standard of living falls or rises respectively overtime.
10. Income per capita does not reflect changes in the quality of goods produced overtime, yet the standard of living is directly affected by changes in the quality of the goods and services
11. Income per capita does not reflect changes in nature of goods and services produced overtime. Yet the changes in nature of goods produced in the economy results in changes in standard of living; for example the volume of goods produced may rise, but the proportion of those goods consumed may fall instead;
12. Income per capita does not reflect effects of changes in the degree of political stability in the country on standard of living overtime. Yet the changes in political stability directly affect welfare.

8×2 = 16 MRKS

6. a) Differentiate between "labour productivity" and "labour efficiency".

Productivity of labour is defined as the output per unit of labour employed in a given period of time

2 MRKS

Whereas

Efficiency of labour is the ability of labour to produce ~~a~~ quantity and quality of output in a specific period of time. **2 MRKS**

b) Explain the factors that influence productivity and efficiency of labour in your country.

1. Mental abilities and physical strength, workers who are mentally alert and physically strong are usually more efficient than workers who are physically weak.
2. Working conditions. Where working conditions are good productivity and efficiency of labour is high than where working conditions are poor.
3. The level of incentives given to workers including wages and non-pecuniary benefits. Where workers offered fringe benefits like transport, lunch, and medical treatment their productivity and efficiency is higher than in a situation where workers are not given any incentives.
4. The level of education and training. More educated or trained labour is more efficient than the less trained or unskilled labour.
5. Availability and quality of co-operant factors such as tools used by labour in production. Labour is likely to be more efficient where such factors are readily available than in cases where they are not readily available.
6. Social environment. This includes availability of health facilities, food, shelter which influences social welfare of workers, enables labour to work more efficiently.
7. Quality of management of the production process. Quality management helps to ensure high labour productivity while poor management results in inefficiency and low productivity of labour.; Degree of Supervision
8. Degree of specialization of labour. More specialized labour obtains greater skills in a particular activity since it concentrates effort in that activity therefore becoming more efficient and productive whereas labour that does not specialize spreads efforts in a number of activities which reduces their efficiency and productivity.
9. Organisation of workers. More organized labour, say in workers associations, is able to coordinate their activity therefore becoming more efficient and organised than less organised labour.
10. Wage level. Labour which is paid a reasonable or high wage is more productive than labour which is underpaid.
11. The health conditions of the worker. A worker in good health is more productive and efficient because he or she is energetic while a worker in poor health is less productive because he or she is weak.
12. Level of experience at work. Efficiency labour is most often associated with experience; more experienced workers are more efficient than less experienced workers due to the high skills obtained over time.

8×2 = 16 MRKS