Mark Guide

A'Level Economics Paper I 2024 yrs.

CRM 2024 ECONS GUIDE

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

Regional Mock
Advanced level ECONS. PAPER 2
MARK GUIDES

1. (a) Positive economic theories explains how the economy works, and to predict what will happen in the future if certain actions are taken now. It deals with positive facts or statements like 'More goods will be bought at a lower than at a higher price'. It can be true or false.

whereas Normative theories deal with statements like what should or ought to happen, they are based on value judgement. Britain should enter the common market is a normative statement.

Unlike positive theories, normative theories cannot be verified by looking at the facts.

Generally, positive economics describes while normative economics prescribes.

10 mks

(b) Economics is a social science b/c it deals with human behaviour in the society. Generally the reasons for economics as a social science include:

10 mks

- Follows scientific methods and procedures to develope theories which can help explain events we observe.
- Uses Scientific methods of analyzing

economic facts,
- Use of Mathematical concepts like graphs, data, formulas, etc to illustrate economic concepts.
- Concerns Positive statements not normative statements.

2 (a) - Differences in their definition and calculation (Show it). 4mk

4mk

- When YED is positive it indicates normal goods but when CED is positive it indicates that the goods are substitutes or competitive demand.

- When YED is negative it indicates inferior goods whereas when CED is negative it indicates that the goods are Complements e.g. Car and petrol. 6mks

- When YED is zero (necessities) but when CED is zero (independent goods or unrelated goods.

6.

(b) Use the paradox of Value to answer this question why water is cheaper than Jewellery.

10mks

• The paradox of Value states that : It is a Contradiction where water an essential item is cheaper than Jewellery a non-essential. Differentiate between value in use which is the usefulness of an item and depends on TU whereas value in exchange which is the market price of an item and depends on MU.

Water may be abundant (not scarce) and have a low MU and hence a low price. whereas Jewellery is scarce and has a high MU and hence a high price. Therefore water is cheaper than Jewellery.

3. (a) Oligopoly a market with few large firms. (Competition among the few).

10mks

- Homogeneous or Heterogeneous goods.
- Existence of Collusion among firms.
- Existence of Price Leadership (the Giant firm becomes the market Leader and other firms follow its pricing.
- Existance of Price-war or Competition.
- Non-price Competition (advertising, product differentiation etc.
- Kinked demand curve exist.

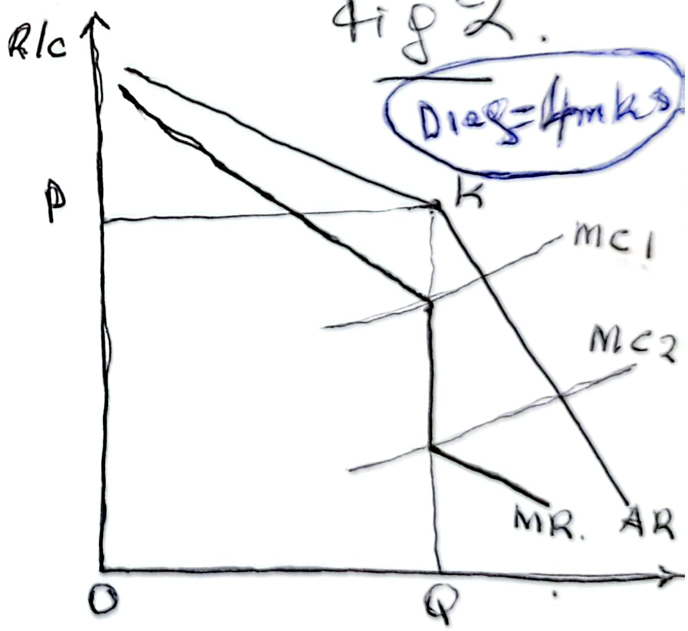
5pts for Well explained = 10mks

(b) Use the kinked demand curve to explain price rigidity in Oligopoly. (Fig 2.)

10mks

Fig 2.

Diag = 4mks



At eqm. price OP the dd is kinked at point K.
DD above K is elastic while DD below K is inelastic.

- A rise of price above OP will lead to fall in market share and profits b/c DD is Elastic.
- A fall in price below OP will invite a price-war. This will eventually reduce the profits of competitive firms b/c dd is inelastic.

Therefore the price OP where dd is kinked at point K is stable or rigid.

Give credit to a candidate who mension the discontinuity of MR curve ~~to explain~~ price rigidity.

6+4 = 10 mks.

4 (a) - Economic Rents (ER) is surplus paid to any factor of production over and above its supply price (opportunity cost or transfer earnings).

8 mks

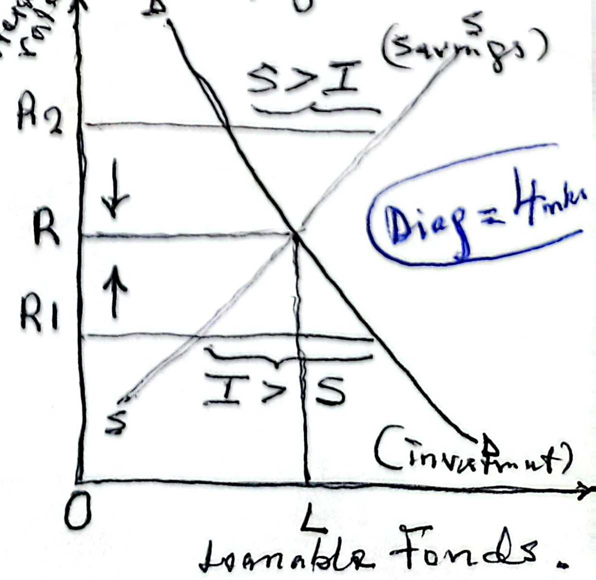
- Transfer earnings are the minimum payments that will prevent a factor from transferring to another service.
- Normal profits are transfer earnings b/c they are the payment required to keep the entrepreneur in its present occupation
- Abnormal profit is surplus over and above normal profits is described as economic rent of enterprise.
- Abnormal profits of perfect competition are described as Quasi-rents because they dissappear in the long-run.
- Abnormal profits of Monopoly are pure economic rent because they do not dissappear in the long-run.

(b) - Use the diagram Fig 1 to show how interest rate is determined according to the classical theory.

6 mks

Eqm rate of interest (R) is that where supply for loanable Fonds (Savings) equal demand for loanable fonds (Investment) i.e, where S = I.
~~When~~ At R2, S > I and rate of interest falls towards eqm.

Fig 1.



At R1, I > S and the rate of interest w
rise towards equilibrium.

Diag = 4 mks + 6 mks explanation

5.(a) MPC is the proportion of the additional income spent by household.
where $MPC = \Delta C / \Delta Y$. — ($2\frac{1}{2}$ mk)

10 mks

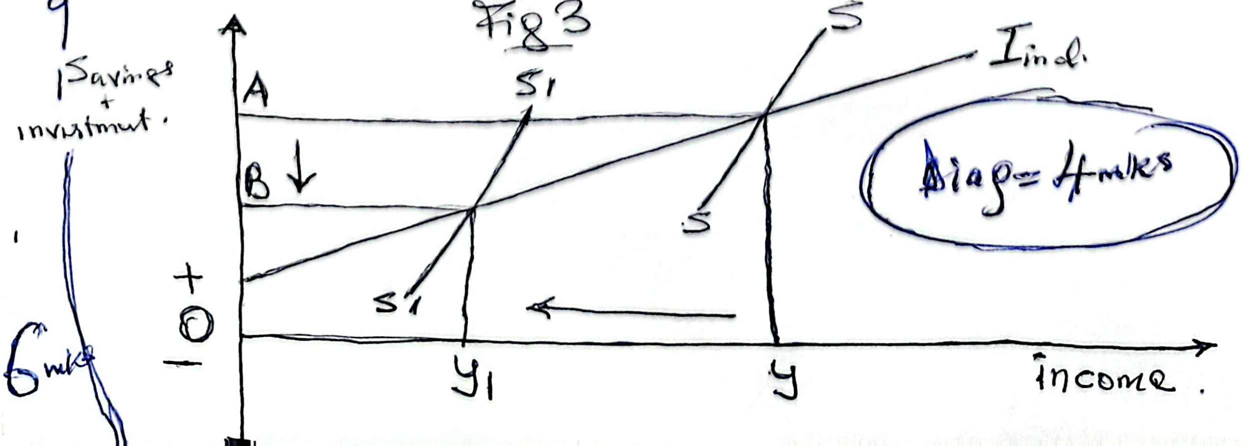
MPS is the proportion of additional income which is saved. $MPS = \Delta S / \Delta Y$.
But $MPC + MPS = 1$. — ($2\frac{1}{2}$ mk)

- APC is the proportion of income spend on goods and services. $APC = C/Y$ ($2\frac{1}{2}$ mk)
- APS is the proportion of income which is saved. $APS = S/Y$.
But $APS + APC = 1$. ($2\frac{1}{2}$ mks).

Given a Consumption Function as $C = aY$;
then $a = MPC = APC$.

(b) The Question concerns the Paradox of thrift which states that when a Community plans to save more it will lead to a fall in total savings. It is based on the assumptions that: investment is induced; the economy is below full employment.
Use diagram Fig 3 to explain the Paradox.

Fig 3



6 mks

Initialy the equilibrium income is Y where S = I.

When the community plans to save more the Saving curve will shift upwards or to the left from SS to S1S1. The effect is that the equilibrium income falls from Y to Y1 resulting to a fall in total savings from point A to B in Figure 3.

Diag = 4mks and Explanation = 6 mks.

6 (a) Discretionary Fiscal policy is govt attempt to change G and T to influence AMD so as to achieve economic objectives. It can be expansionary (budget deficit) to achieve economic growth or Contractionary (budget Surplus) to cure inflation.

10mks

- Whereas automatic fiscal policy are inbuilt mechanism within the budget which prevents income from rising or falling very steeply. Examples are Progressive taxes and unemployment benefits. Automatic Stabilizers come into effect when tax revenue and govt spending change independently of any deliberate govt actions.

(b) Problems of discretionary fiscal policy include:

10mks

- Tax revenue may be difficult to predict.
- Effects of tax changes may be uncertain because of time lags in operation.
- It may lead to conflicting objectives as unemployment rate trade-off with rate of inflation shown by phillips curve.
- External borrowing to finance a budget deficit may lead to crowding out effect.

- Some forms of G may not be easy to change.
- Progressive taxes may lead to fiscal drag.

(5 pts well explained for 10mks)

7 (a) Custom Union is a group of Ctries with no tariff on their mutual trade and a common external tariff against non-members E.g. Central African Economic and Monetary Community (CEMAC) and the European union (EU).
Whereas Free Trade Area is a group of countries that eliminate tariff barriers between members but allows each member to adopt its own tariff policy towards non-members. E.g. European Free Trade Area (EFTA).
Explain further.

8 mks

(b) Cameroon has the following benefits from CEMAC.

- Increase in Market size.
- Increase variety of goods.
- Increase in GNP.
- Use of a Common currency FCFA.
- May achieve BOP equilibrium or Surplus.
- Increased competition among members result to production of quality goods (Efficiency ↑)
- Free trade among members.
- Greater access to resources e.g. cheap labour and skills move btw countries
- Greater specialisation and exchange e.g. production and sales of cement to members.
- Infrastructural Devt like roads, Railways and sea/Air ports.

(6 well explained pts for 12mks).

1 (a) Unemployment are those who are willing but are unable to have a job. The following are negative effects of unemployment in Cameroon.

- Cost to the economy from lost production causing a Depression.
- Cost to the govt in the form of lost revenue from income tax, National insurance contribution etc.
- Cost to individuals in the form of decreased income, loss of status and frustration.
- Lead to Brain draining (Mass emigration to developed Ctries.
- Lead to underemployment.
- increases the burden of dependents in the economy

5 Explained pts. for 10mks (5X2mks=10mks)

(b) Measures used to reduce the high rate of unemployment include;

- Privatisation process attract more private firms into the industry and increase employment.
- Govt creates new industries
- Creation of the National Employment Funds (NEF) helps link job seekers to job opportunities.
- Liberation of the economy by allowing Cooperative societies to participate in economic activities.
- Small and medium size industries should be encouraged with govt subsidies.
- A good tax policy to attract Foreign investment.
- Dev't of basic infra-structures like intercities roads, farm to market roads, extension of public utilities like electricity and water to the community.
- Expansionary Fiscal and Monetary policy.

5 explained pts for 10mks

Mark Guide Economics P3
Mock G.C.E. EXAMS March 2024

1 (a). Price Mechanism is a system of price determination where DD = SS. — (3mks + 1mk)
- Also called the invisible Hand.

(b) Self Interest: "while firms operated to maximise profits and household seek to maximise their utility from consumption." — (2mks).

(c) Main functions of Price Mechanism are: Acts as a signal; Acts as an incentive; a rationing device (3 mks)

(d). (i) Market Failure is the inability of the price system to achieve optimum allocation of resources. — (3mks)

(ii) Market Failure include: Creation of monopoly; Under production of merit goods; over production of Demerit goods; non production of public goods; existence of externalities; DD + SS changes resulting to inflation + unemployment; inequality in income. — (4mks)

(iii) Measures to correct Market Failure include:

- Taxing Monopoly profits
- Price Control to cure inflation.
- Gov't Produces Public goods
- Gov't subsidises the production of Merit goods.
- Progressive tax to reduce inequality in income.

(4 pts for 4 mks).

2 (a) Discriminating Monopoly is a Mkt structure where the same goods are sold to different consumers at diff. prices. — (3 mks).

(b) Conditions Possible for this Market

- Goods produced by Monopoly
- PED differs in the markets.
- No Seepage.
- Markets should be seperated.

(4 mks).

(c) (i) Table (3 mks).

	Market A		Market B		Market C	
Qty	TR	MR	TR	MR	TR	MR.
1	10	10	12	12	8	8
2	18	8	22	10	14	6
3	24	6	30	8	18	4
4	28	4	36	6	20	2
5	30	2	40	4	20	0

(ii) Capacity = 9 units.

At Eqm: $MR_A = MR_B = MR_C = 6$

i.e. $3A + 4B + 2C = 9$.

- 3 units sold in Mkt A at 8 Frs.
- 4 units sold in Mkt B at 9 Frs.
- 2 units sold in Mkt C at 7 Frs.

(6 mks)

(d) (i) Benefits of P.D. to Producers.

- Economies of scale.
- Can cover cost and earn abnormal profits
- Cross subsidization of services,
- Market Expansion.

2 pts = 2 mks

(ii) Benefits of P.D. to consumers

- Lower prices to consumers.
- closes gap btw the rich + poor.
- Consumers gain from market location.

(2pts for 2mks).

3(a) (i) J = I+G+X : Components of AMD which will increase NI. — (2mks)

(ii). W = S+T+M : Components of AMD which will reduce NI. — (2mks).

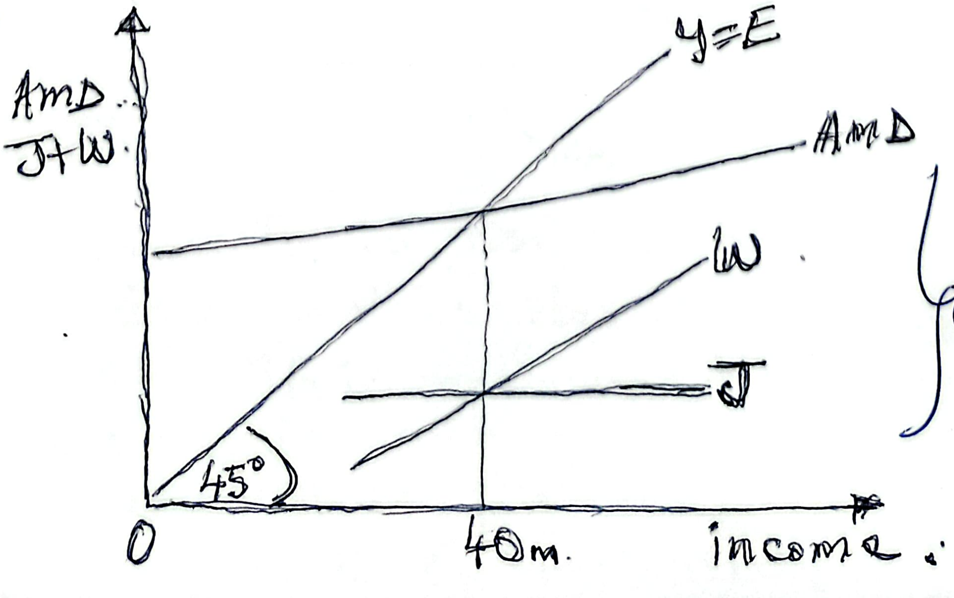
(iii). AMD = C+I+G+X−M. The sum of consumer expenditure, capital expenditure, government expenditure plus. exports minus imports. — (2mks).

(b)

y	J (2mks)	W (2mks)	AMD (2mks)
10	16	4	22
20	16	8	28
30	16	12	34
40	16	16	40
50	16	20	46
60	16	24.	52.

(c) Eqm. income is 40 million FCFA b/c J = W = 16 and Y = AMD = 40 (4 mks)

(d).



(4mks)

of P.D. to consumers

7. (a) (i). PED = ∞

(ii). PED = 3 or PED > 1

(iii). PED = 1

(iv). PED = 1/3 or PED < 1

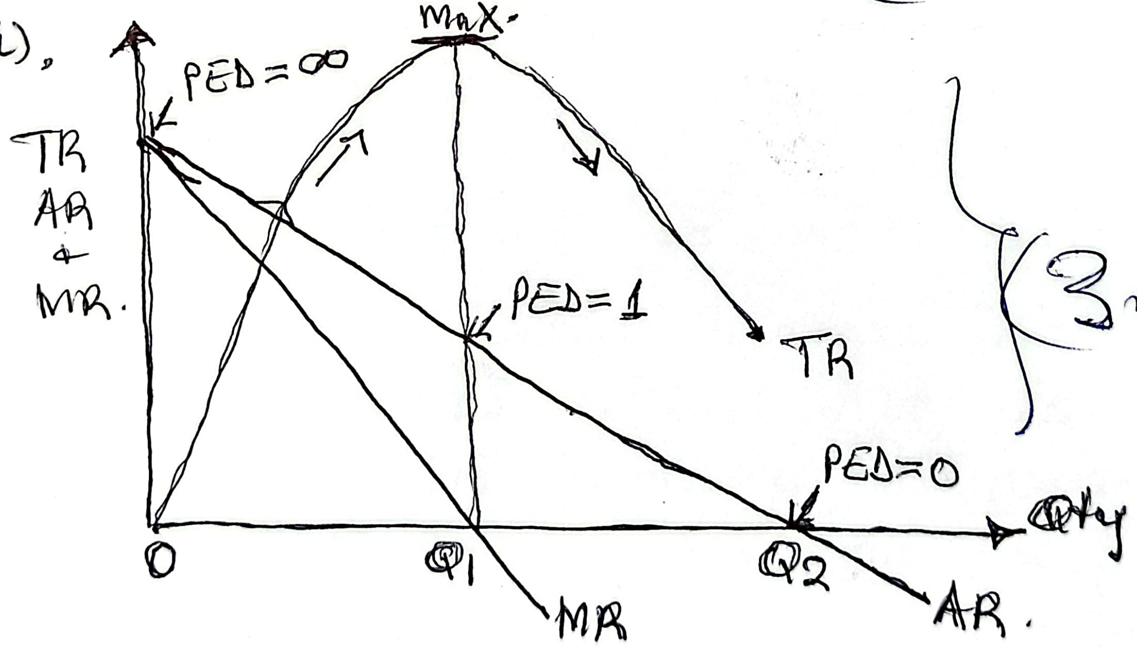
(v). PED = 0

5 × 1mk = 5mks

(b) $PED = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$. Moving down the curve DD, the slope ($\Delta Q/\Delta P$) is constant but P/Q reduces since price (P) is falling and Quantity (Q) is increasing.

(2mks).

(c). (i),



(3mk)

(ii) – When TR is rising, MR is positive and demand is elastic.

– When TR is maximum, MR = 0 and demand is unitary.

– When TR is falling, MR is negative and demand is inelastic.

3 × 2mks = 6mks

(d) Monopoly maximises profits at the output where MR = MC. At the output range where demand is inelastic the MR is negative with falling TR and profits. Therefore the Monopoly will never produce beyond the output OQ1 b/c MR is negative and TR is falling.

4mks

5(a) (i) Reproductive debt is a debt which goes to finance the creation of real assets like schools, roads etc. (2mk)

(ii) Deadweight debt is loans used to finance current expenditure on wars or consumption. — (2mk).

(iii) The Burden of national debt is the cost of servicing debts. OR it is the opportunity cost of servicing the debt and eventual repayment of the loan. —(2mk)

(iv) Debt servicing refers to the payment of interest and principal of a loan at given intervals of time. —(2mk)

(b) (i) The national Debt is a burden (1mk)

(ii) It is a burden because a greater percentage of the national debt is external and its servicing will constitute a serious leakage in the circular flow. It is also a burden because it constitute about 67% of the GNP. — (3mks).

(c) Negative effects of a huge national debt in an economy include;

- Increase in the burden of taxation.
- Crowding out effects of external borrowing
- loss of political and economic independence.
- Interest payment may generate inflation

11 mks.

(d) Ways to reduce the burden of National Debt include:

- Govt borrow according to GNP size.
- Govt should contract mostly internal Debt.
- Govt should contract Reproductive debts.
- Govt should contract mostly long-term loans.
- Debt can be turned into investment from debtor ctry by buying shares.
- Govt pay a greater part of the loan during inflation
- Appeal for cancellation.
- Appeal for rescheduling of debts.
- Repudiation

(4pts for 4mks)