Mark guide CASPA mock 0725 Economics

Paper 3

1 a) J/W method

Equilibrium $\Rightarrow I+G+X = S+T+M$ (1mk)

$S = Y - C$

$= Y - 400 + 0.8yd$

$S = -400 + 0.2yd$. Since $yd = Y - T$

$400 + 100 + 600 = -400 + 0.2yd + 0.5y + 0.2y$ (1mk)

$1100 = -400 + 0.2(Y - 0.5y) + 0.7y$

$1100 + 400 = 0.2y - 0.1y + 0.7y$

$1500 = 0.8y$ (1mk)

$Y = \frac{1500}{0.8} = 1875$ million ~~FCFA~~ (1mk)

b) Value of Consumption expenditure

$C = 400 + 0.8yd$.

Since $yd = Y - T$

$C = 400 + 0.8(Y - 0.5y)$

$= 400 + 0.8y - 0.4y$

$C = 400 + 0.4y$

Given that $Y = 1875$ m FCFA.

$\therefore C = 400 + 0.4(1875)$ (1mk)

$= 400 + 750$

$= 1150$ million FCFA (1mk)

c) Factors that will influence consumption expenditure are

- level of disposible income.
- Availability and cost of credit

- Distribution of income and wealth
- The age distribution of the population
- The general price level
- The quality and quantity of consumer goods.
- Rate of interest
- Taxes

Any 4 points (4marks)

d) Total value of leakages

$W = S + T + M$ (1mk)

$= -400 + 0.2yd + 0.5y + 0.2y$

$= -400 + 0.2(y - 0.5y) + 0.7y$

$= -400 + 0.2y - 0.1y + 0.7y$

$= -400 + 0.8y$

$\therefore W = -400 + 0.8(1875)$ (1mk)

$= -400 + 1500$

$W = 1100$ million FCFA (1mk)

e) $K = \frac{1}{MPS + MPT + MPM}$ (1mk)

$= \frac{1}{0.2 + 0.5 + 0.2}$

$= \frac{1}{0.9}$ (1mk)

$\therefore K = 1.11$ (1mk)

f) Four determinants of multiplier 4 points

⇒ Marginal propensity to consume
Marginal Propensity to Save (4mks)
Marginal propensity to tax
Marginal propensity to import.

2a) 1 = Production possibility Line (1mk) It refers to a line which shows the maximum combination of two goods that a country can produce given its limited resources and state of technology with a given period of time (2mks)

2 = Trade possibility line (1mk) It refers to a line which shows the maximum combination of two goods that a country can consume after engaging in international trade assuming it specialises in production based on comparative cost advantage and trade with other countries (2mks).

b) - Increase in price of exports as a result of increase in demand of export.
- An increase in price of exports as a result of fall in supply of export
- Increase in the price of export as a result of high rate of inflation.
- When the countries country is revalued causing export prices to increase
- If taxes on imports are low, import prices will fall
- Reducing subsidies given to export oriented industries to increase their cost of production and increase export prices.
- Changing the composition of the country's export to be more of manufacturing good.

Any 2 points (2 mks)

c) Clothing (2mks)

d) (i) The country will be exporting Clothings (1mk) and the quantity of Clothing exported will be 25 - 15 = 10units (1mk)

(ii) The country will import food and the additional quantity of the imported goods gained is 400 - 300 = 100units (2mks)

(iii) The quantity of clothing left for domestic consumption is 25 - 10 = 15units. (2mks)

e) Absolute advantage is the ability of a country to produce a given good more than another country using the same amount of resources. While Comparative cost advantage is the ability of a country to produce a good at a lower opportunity cost than another country using the same amount of resources. (4mks)

3 a) FC = 100,000FCFA (1mk) because at output Zero, TC equals to FC. (2mks)

b)

Output units	TC (000FCFA)	TR(P×Q) (000FCFA)	MC (000FCFA)	MR (000FCFA)
0	100	0	—	—
1	150	~~45~~90	50	90
2	180	180	30	90
3	210	270	30	90
4	228	360	18	90
5	260	450	32	90
6	300	540	40	90
7	350	630	50	90
8	440	720	90	90
9	630	810	190	90
10	900	900	270	90
		(2mks)	(2mks)	(2mks)

Given that Price = 90,000FCFA

c) The Price is constant at 90,000FCFA because the individual firm simply takes the price given by the industry and cannot change the price since if it tries to sell above the price it will sell nothing as consumers have perfect knowledge on the market and know well the price charge everywhere in the market. (2mks)

d) Profit are maximised at the output level 8 units. (1mk)

This is because at this level of output MC = MR and MC is rising and cuts MR from below. (2mks)

e) High cost firms are firm that are making losses in the short-run since it average cost is greater than its average revenue at the profit maximising output while Marginal cost firms are firms that are ~~mark~~ making normal profits in the short-run since it average cost is equal to average revenue at the profit maxim-ising output. (4mks)

f) Merits of prefect market structure are:

- No wastage of resources.
- ~~Standardised~~ produced
- Standardised products are produced. any two points (2mks)
- Firms enjoy allocative efficiency.
- Firms enjoy Productive efficiency.
- Prices of goods and services are usually lower.
- output produced is large.
- New firms can freely enter and leave the market.
- Consumer and producer welfare are maximised.
- There is transparency and Availability of information.

4 a) The value of special deposit = Total Asset − Sum of (1mk)
of the other assets.

Total asset = 1800

Sum of other assets = 60 + 120 + 350 + 350 + 300 + 400 = ~~1580~~ 1580 (1mk)

∴ Special deposit = 1800 − 1580 = 220 million ~~Ksh~~ (1mk)

b) The most liquid asset of the bank is Cash in the bank's coffees (1mk) which is the Coins and Bank notes kept in the bank as they can be withdrawn at short notice by (2mks)

Customers of the bank (1mk)

The most profitable asset of the bank is Advance and these are bank loans and overdrafts granted to Customers of the bank. They are profitable since they earn interest which depends on the conditions and duration of the loan (2mks)

(c)(i) Required Cash reserve ratio = $\frac{\text{Cash + Operational balance at the Central bank}}{\text{Total Assets.}} \times \frac{100}{1}$ (1mk)

$= \frac{60+120}{1800} \times \frac{100}{1}$

$= \frac{1}{\cancel{180}} \times \frac{\cancel{100}}{1}$

$= 10\%$ (1mk)

(ii) Liquidity asset ratio = $\frac{\text{Total Liquid Asset}}{\text{Total assets}} \times \frac{100}{1}$ (1mk)

Total Liquid assets = 60 + 120 + 350 + 350 (Cash + operation balance + Money at Call + Treasury bills)

= 880

Total Liquid Assets = $\frac{880}{1800} \times \frac{100}{1}$ = 48.89% (1mk)

d) The profitability and liquidity objective of the bank conflict because in order to achieve one, the bank has to forgo the other. To achieve profitability, the bank has to give out much loans as possibility and will forgo to make cash available for customers at short notice on demand

To achieve liquidity the bank has to keep enough cash and make it available for customers at short notice on demand and will forgo to keep money for loans and will give out few loans. (3mks)

e) - Current account do not earn interest but rather attract charges while Saving account earn interest to the account holder.

- Current account are highly liquid while Saving account is less liquid. Any Two points
- Money kept in the Current account can be withdrawn without prior notice to the bank while Money kept in the saving account can be withdrawn after notifying the bank (4 marks)
- Money kept in the Current account can be withdrawn on demand with the use of a cheque while money kept in the saving account can be withdrawn with the use of a passbook.
- Overdraft facility is provided to Current account holders while overdraft facility is not provided to Saving account holders.

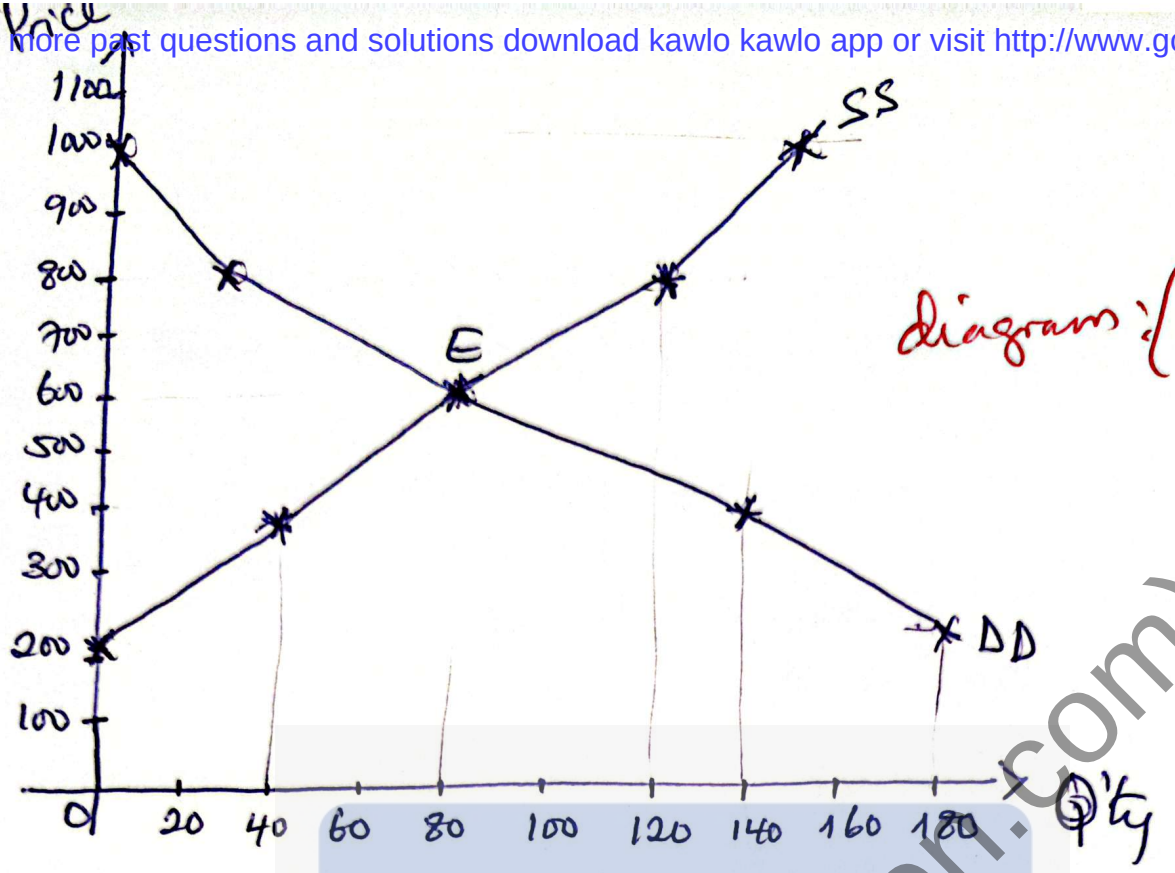
a) 

diagram: (4 marks)

From the diagram above, the equilibrium price is 600FCFA (1mk) and the equilibrium quantity is 80units (1mk)

b) - First law of demand and supply states that ~~eq~~ everything being equal more is demanded at lower prices than at higher prices. (2mks)
- Second law of demand and supply states that Ceteris paribus more is supplied at higher prices than at lower prices (2mks)
- The third law of demand and supply states that Ceteris paribus at equilibrium quantity demanded equals quantity supplied (2mks)

c) (i) at Price 800FCFA, the name of the price is the minimum price or the price floor. (2mks)

(ii) - It will lead to ~~Sapp~~ Surplus in the market (Excess Supply
- It will increase the profits of firms.
- It help to recover the economy from deflation.
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- It will lead to an increase in government expen-diture since the government has to buy the excess supply in the market

Any 3 point

- It encourages investment since profits will increase
- It increases the level of employment since invest-ment thus increase

(3 mks)

- may lead to dumping as producers may attempt to sell expensive at home.
- It could led to the development of black legs as some traders may attempt to illegally sell below the minimum price.

e) Consumer Surplus = $\frac{1}{2}$ base x height (1 mk)

base = 80

height = 1000 - 600 = 400

∴ Consumer Surplus = $\frac{1}{2}(80) \times 400$ (1 mk)

= 16,000 (1 mk)