

ECONOMICS 2

MARKING SCHEME

SECTION A

1. An effective industrialization demands modern agriculture because of the roles of agriculture to industrial sector. The following are the roles of modern agriculture towards effective industrialization in Tanzania.
 - i. Agriculture provides raw – materials to industrial sector
 - ii. It provides market for industrial products like chemicals and fertilizers
 - iii. It provides food for industrial workers
 - iv. It is a source of market research needed by industrial sector
 - v. It provides reserve labour to industrial sector
2. Tanzania is grouped as under developed economy due to the following reasons:
 - i. Low per capital income
 - ii. Low level of living standard
 - iii. Low rate of capital formation
 - iv. Low productivity of labour
 - v. Poor social – economic infrastructures
 - vi. Low level of science and technology.

SECTION B

3. National income (NNP_{fc}) = 98,785

GDP_{fc} 103,367

Capital consumption allowance ...7,082

Net indirect tax4200

- i. GDP_{mp}
 $GDP_{mp} = GDP_{fc} + \text{Net indirect tax}$
 $= 103,367 + 4200$
 $= 107,567$
 $GDP_{mp} = 107,567$
- ii. $GNP_{mp} = GNP_{fc} + \text{Net indirect tax}$
From $NNP_{fc} = GNP_{fc} - \text{Depreciation}$
 $98,785 = GNP_{FC} - 7,082$
 $GNP_{fc} = 98,784 + 7082$
 $= 105,867$

$$\text{GNP}_{\text{mp}} = 105,867 + 4200$$

$$\underline{\text{GNP}_{\text{mp}} = 110,067}$$

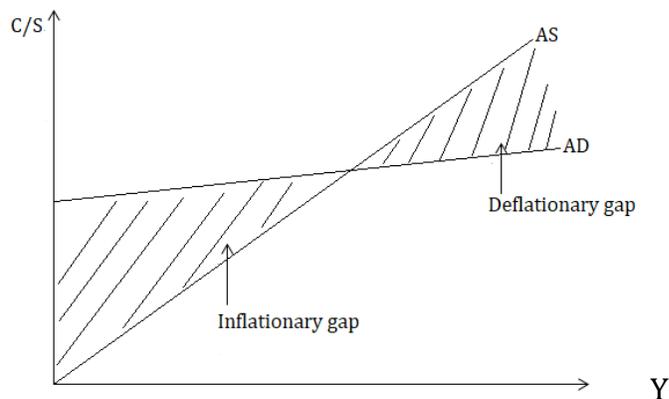
iii. $\text{NNP}_{\text{mp}} = \text{GNP}_{\text{mp}} - \text{Depreciation}$
 $= 110,067 - 7,082$
 $= 102,985$
 $\text{NNP}_{\text{mp}} = 102,985$

iv. $\text{NDP}_{\text{fc}} = \text{GDP}_{\text{fc}} - \text{Depreciation}$
 $= 103,367 - 7,082$
 $= 96,285$
 $\text{NDP}_{\text{fc}} = 96,285$

v. NIFA
 $\text{GNP}_{\text{mp}} = \text{GDP}_{\text{mp}} + \text{NIFA}$
 $\text{NIFA} = \text{GNP}_{\text{mp}} - \text{GDP}_{\text{mp}}$
 $= 110,067 - 107,567$
 $\text{NIFA} = 2500$

vi. $\text{NDP}_{\text{mp}} = \text{GDP}_{\text{mp}} - \text{Depreciation}$
 $= 107,567 - 7,082$
 $\text{NDP}_{\text{mp}} = 100,485$

(b) Deflationary gap occurs when aggregate supply exceeds aggregate demand. The total supply of the economy becomes greater than total demand of the economy.



Measures to control deflationary gap

- i. Reduction in taxes especially direct tax
- ii. Increase in government expenditure
- iii. Lowering bank rates to facilitate credits to customer
- iv. Increase in wages to stimulate demand

v. Open market operation through buying securities

4. credit created 80,000

Total reserve 16,000

i. Reserve ratio

$$= \frac{\text{Total reserve}}{\text{Total credit}} \times 100$$

$$\frac{16,000}{80,000} \times 100$$

$$= 20\%$$

ii. Credit multiplier = $\frac{1}{r\%}$

$$= \frac{1}{20\%}$$

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

= 5 times

Credit multiplier = 5 times

iii. Initial deposit

Total credit = initial deposit \times 5

$$\frac{80000}{5} = \frac{\text{initial deposit} \times 5}{5}$$

Initial deposit = 16,000

iv. The process of credit creation with four banks

BANK	DEPOSIT	LOANS	RESERVE
EXIM	16000	12,800	3200
NBC	12,800	10,240	2560
NMB	10,240	8192	2048
BOA	8192	6,553.6	1,638.4
TOTAL	47,232	37,785.6	9,446.4

(b) Determinants of credit creation

- i. Number of banks in the economy .Large number of banks facilitates high credit creation while small number of banks limits the process of credit creation
- ii. Government policy .Good government policy especially monetary policies influence credit creation in the economy
- iii. Banking habit of the people. If individuals have good banking habit it encourage credit creation in the economy
- iv. Availability of credit – worthy customers. If there is large number of credit-worthy customers the process of credit creation becomes high.

- v. Size of reserve ratio. The larger the reserve ratio the smaller the process of credit creation and vice-versa.
- vi. Leakages and hoarding of money in the economy. If there is high leakages and hoarding of money in the economy credit creation becomes low.

5. a) (i)

COUNTRY	COMMODITIES	
	Maize	Potatoes
UGANDA	100	120
RWANDA	80	100

(ii) Uganda has absolute advantage in producing maize because given the same resources and technology Uganda can produce more units of maize than Rwanda

(iii) Uganda has absolute advantage in producing potatoes, because given the same resources Uganda can produce more of units of Potatoes than Rwanda.

(iv) With comparative advantage the domestic opportunity cost

Maize Uganda $\frac{120}{100} = 0.2$

Rwanda $\frac{100}{80} = 1.2$

Potatoes Uganda $\frac{100}{120} = 0.83$

Rwanda $\frac{80}{100} = 0.8$

- ❖ Uganda has lowest opportunity cost in producing maize, while Rwanda has lowest opportunity cost in producing potatoes, hence Uganda should Specialize in producing maize while Rwanda should specialize in producing potatoes.

(b) Ways that can be taken to control import

- i. The use of tariffs. The government may impose very high tariffs /tax on imported goods in order to discourage imports.
- ii. The use of Quotas. The government may set maximum amount of a certain goods to be imported from another country

- iii. Product standardization. The government through TBS/TFDA may set very high standard for goods entering from other countries in order to control import.
- iv. Bureaucratic export and import procedures. The government sets complicated and time consuming procedures to importers.
- v. Total ban. The government may completely stop/ban the importation of a certain good/inputs from other countries.
- vi. Voluntary export restraints. The government may reach reasonable agreement with importing countries to reduce the rate of import.

SECTION C

6. Tax is a compulsory payment made by individuals and firm to the government. Tax can be direct or in indirect.

Countries obtain more tax revenue from indirect tax than direct tax because

- i. People (taxpayers) do not feel much pain by paying indirect tax
- ii. Indirect taxes do not discourage production of efforts to work
- iii. indirect taxes do not encourage tax evasion
- iv. In direct taxes discourage/avoids corruption by tax collectors
- v. Indirect tax has wider tax base than direct tax
- vi. It is not easy to know how much individuals or businessmen earn
- vii. Indirect taxes are economical since they are less expensive in administration

Conclusion.....Any relevant conclusion

7. Micro financing is the provision of credit to people who are valuable to obtain credit from commercial banks

PRIDE and FINCA charge high interest to their borrowers due to:-

- i. Amount of loan is low compared to the cost of granting and administering the loan
- ii. High incidence of bad debts due to high risk profiles
- iii. The demand for loan exceeds the supply of loan
- iv. They provide more personalized services which are more costly
- v. They have national wide representation leading to increased cost of administration
- vi. Transactions are largely manually leading to high cost per transaction.

Conclusion.....Any relevant conclusion

8. Transformation approach is an approach to agricultural development which aim at large scale production for both domestic and external markets.

Factors that hamper the working of transformation approach include

- i. Shortage of capital/ funds. Farmers lack enough fund which could be used to buy agricultural inputs and improve market research.
- ii. Low level of technology .The use of poor technology in agriculture discourage farmers to move to large scale production.
- iii. Shortage of large scale open fertile land
- iv. Inadequate skilled farmers. This results to production of low quality output which are then sold at low prices in both domestic market and international market.
- v. Shortage/ inadequate market .There is inadequate market for agricultural products which discourage producers to increase production
- vi. price fluctuation which affect production which makes farmers and peasants fear to engage in large scale production

Conclusion.....Any relevant conclusion.