**S5 MARKING SCHEME**

**SECTION A**

1. A: a , B : a , C: d , D: b : E: b
2. **Free entry and exit of firms**: means that there are no barriers before the firm for entering into the industry and leaving the industry. New firms enter

when they find that **the existing firms are earning super normal profits**. **(1mark)** **With their entry output of the industry increases,(1mark) that leads to fall in the price of the product** **This continues till each firm is earning only normal profit. (1mark)**

**The** existing firms leave when they face losses. As they leave output of the

industry goes down, raises the price of the product till the losses are wiped out.

 **(1mark)**

3. i) Disposable income is the amount of income that is available for the household to spent or save after deductions of income tax. **Disposable income = personal income minus direct tax. (2marks)**

**Personal income** is the income that individuals actually receive during the current accounting period, whether or not it is payment for productive services, it includes transfer earnings. **(2marks)**

ii) **Absolute poverty** is where a person’s income cannot meet his/her minimum requirements for survival while **relative poverty** is where a person’s income is low compared to income of other people in community where one lives. **(2marks)**

ii) **Equitable distribution of income is** where income is shared fairly and the economic distance between the very rich and the very poor is very small. Equal distribution of income is where all people in society have the same income level. **(2marks)**

4 a. i) M= ∆Y/ ∆E where ∆Y is the change in income, ∆E is the change in expenditure. **(0.5 marks)**

From our data, M=2, ∆Y= 100million

So, 2=  , 2∆E = 100, ∆E = 50 **(0.5 marks)**

The change in government expenditure is 50 million.

If M=  and M= , so  **(0.5 marks)**

From our data: ∆E= 50 million

 ,  , 0.6 ∆Y=50 , ∆Y=83.333

 The change in national income is 83.33 million while the change in government expenditure is 50 million. **(0.5 marks)**

 ii) MPS=0.2, MPC= 1-MPS = 1-0.2= 0.8 **(0.5marks)**

MPC=0.8

The magnitude of multiplier (M): or,

or = 2 , the multiplier is 2.  **(0.5 marks)**

iii) MPC= 40%, multiplier (M) =  or M=  , **(0.5 marks)**

 M=  , M== 1 x=1.66

M=1.66 **(0.5 marks)**

iv) Multiplier (M) =2, Y=100,

M= , if M=2 , 2= , 2MPS =1 , MPS= =0.5 **(0.5marks)**

M=0.5 **(0.5 marks)**

5. a) **Quasi**-**money or**  Near **money** consists of highly liquid assets which are not **cash** but can easily be converted into **cash**. **(1mark)**

Examples of near **money** are as follows: Savings accounts, Money market **funds**, Bank time deposits (certificates of deposit). **(1mark)**

b.i) your money deposited in Bank of Kigali on your current account is in M1 level of money supply because M1 involves cash and demand deposits. M1 looks at money as a medium of exchange **(1.5marks)**

Your Money can be taken out any time you want for transactions. **(0.5marks)**

ii) Tourism in Rwanda can determine the quantity of money supply:

 In case of foreign tourists coming in Rwanda, the rate of inflow is high, hence high money supply. **(1mark)**. When there are Rwandan tourists leaving their country for foreign countries, high capital outflow reduces money supply.

 **(1mark)**

6. - Lower interest rates **reduce the cost of borrowing and stimulate households spending**. **More spending from households stimulates investment and production of more goods and services hence economic growth**. Applied successfully, low interest rates increase aggregate demand and **in long term it** **increases long run aggregate supply** which is an indicator of economic growth. **(3marks)**

* When interest **rate is low**, **it is cheaper for firms to finance investment hence production of more goods and services which indicate the economic growth. (2marks)**

7. The major, main objectives of the government in economic activities and intervention is to improve the **welfare** of the people and to ensure **economic stability and security**. To maximize achievement of its goals, government needs to expand the sources of its revenues. Different methods should be used to expand the sources of income:

- **Ensuring political stability and security**: in all part of the country to encourage smooth production and business.

- Attracting more investors both local and foreign so as to expand the tax base and hence getting more revenue.

- Monetizing the economy so as to increase income earners who contribute to the revenue of the government in different ways.

- Train and retain manpower to properly assess taxpayers and collect tax revenue.

* Diversification of the economy so as to widen the tax base and increase tax revenue as the major source of government revenue.
* Introducing new form of tax both direct and indirect.
* Tax education to the public through radios, televisions, posters and seminars to reduce tax defaulters.
* Strengthening anti-smuggling measures to fight against tax avoidance and tax evasion.
* Fight against corruption in all revenue collection offices.
* Seeking aids and grants
* Privatization of government enterprises which do not bring in much revenue to the government in form of profits. **(1 markx5=5marks)**

8. **Through taxation government can narrow the gap between rich and poor people**: government can impose **higher rate of tax on income of the rich and on the goods consumed by the rich.(2marks)**  This will bring down disposable income of the rich. The amount so collected can be spent on **providing free services**, like education, **subsidized food to the poor people**.eg. This will raise disposable income of the poor reducing
the gap between rich and poor. **(2marks)**

9. a.i) The population from 65 years and above represent 16% of 12625200 persons = 2020032 persons **(0.5marks)**

##  Dependence ratio= The number of defendants x1000 (0.5 marks) Total working population

**The number of young persons from 0-14 years = 12625200 persons x 54%**

**= 6817608 persons (0.5 marks)**

 Dependent persons are 6817608 Persons +2020032 Persons =

8837640 Persons.

The working population = 12625200 persons x30= **3787560 persons**

 100

The dependence ratio = 8837640 x1000 = 2,333.333

 3787560

This means that 2,333.333 persons depend on 1000 persons. Or 233.33 persons depend on 100 persons. **(0.5marks)**

b.) This high ratio of dependence dominated by young people should have positive implication in the country B economy:

* The greater percentage of the young will be a source of cheap labour in the future.
* There is a large market potential which will increase demand and investment.
* A high dependence ratio awakens the government to plan for the citizens.
* The high dependence ratio encourages hard work to meet the demand.,etc.

 **(1mark x3=3marks)**

10. a) Saving if you save at early age you can provide in the future. You can have a job today; there is no guarantee to have it forever. If you have saved you guarantee that there are no big risks and shocks when lose or leave the job. You can use your savings to create your own job or use it to survive and such for other job. **(2marks)**

 b) To promote the culture of saving, the government of Rwanda has:

- Sensitized people no to keep the money at home but to save it in banks.

 **(1mark)**

- Encouraged and promoted the creation of many different financial institutions like Insurance companies and different commercial banks, cooperatives, Umurenge SACCOs and microfinances. **(1mark)**

c) People savings are important for the government in the way they are used by private sectors to **invest**. **If the level of investment is high in any country, the unemployment rate reduces, the production increases and the government collects high tax revenue.(1mark) Also the government may borrow from different financial institutions where people save their part of income in order to finance social and economic activities. (1mark)**

11. Trade union is an association of workers in a particular firm or industry that is formed with an aim of achieving specific objectives. They are different types of trade union and these include:

- **Craft unions:**  they are formed to organize workers according to their particular skills. E.g: Engineers, teachers, doctors, etc. **(1mark)**

**- Industrial union:** These are unions which attempt to organize all workers in a particular industry, regardless of the job done by workers and their skills.

 **(1mark)**

 **- White collar unions:** This is a union that brings together members in the clerical and administrative staff who are paid salaries. **(1mark)**

**- Open shop or General Unions:** These are unions that allow any one into membership i.e workers from all types of industries and with any level or range of skills is recruited. **(1mark)**

**- Closed shop unions:** These are unions where particular employees are required to join a given trade union before they are employed in an organization or firm. **(1mark)**

 **SECTION B**

12. Per capita income or average income measures the average income (earned and unearned) per person in a given area (city, region, country, etc.) in a specified year. It is calculated by dividing the area's total income by its total population. **(1mark)**

Rwanda has made tremendous progress in many areas of social welfare. In fact, Rwanda is one of the most noted global and continental examples of fast economic growth and successful post-war reconstruction, regardless this rapid social and economic development , Rwanda still having a low per capita income compared to developed countries. Its low per capita income is under the following causes: **(2marks x7=14marks)**

 **Low level of education**: This makes the people get casual low-paying jobs leading to low levels of income and in the end the per capita income will be low.

* **Underdeveloped infrastructure** especially in rural areas: this complicates movement of people and their goods from one place to another. This further limit the level of earnings of the people and some of the output may remain unsold.
* **High levels of unemployment:** in Rwanda unemployment among adults people and youth is big problem, the lack of jobs means that the output in the country will be low leading to a low national income and per capita income figures.
* **Low level of income:** some institutions give people low incomes despite their high contributions to the economy. Some may end up getting subsistence wage that will reflect a low income per person.
* **Dependence of agriculture which depends on climate:** agriculture in Rwanda depends on climate and in situations where there is a mismatch between the seasons; the farmers suffer with no output and income leading to low income per person.
* **Large subsistence sector:** This yields little income since only the incidental surplus is sold. Most of the foods grown here are for home consumption implying that there are no incomes expected during the production process.
* **Unbalanced development:** Some areas are highly developed with many economic activities while others are lagging behind in terms of development. The Least developed areas yield low productivity and the general national income will be affected, leading to low per capita income.
* **Lack of capital to invest in businesses:** There is still lack of enough capital to invest in productive activities. This is evidenced by low level of manufacturing industries. This leads to low productivity, low national income and finally low per capita income.
* **Low price of agriculture products**: This accompanied by high rates of price fluctuation and little earnings from the agricultural sector, leading to low national income and hence low income per person.

13) **A deficit budget** is the type of budget where expected expenditure is greater than estimated revenue**. (1mark)**

A country with a budget deficit should finance it with money borrowed. Ceteris perbus, in our case the country A decides to finance his budget deficit with borrowed money from developing countries. This borrowing may cause the following problems to the country**: (marks x7=7marks)**

* In repaying buck the debt, the country B may increases taxation hence reduced standard of living of its people.
* Borrowing should encourage laziness and dependence of people of the country A who may become reluctant to work because of the expected funds.
* Debt servicing may bring in the country A reduced savings, investments, capital accumulation and lowers the rate of economic growth.
* The country A uses available foreign currencies to pay back money with interest; consequently, it should be unable to make foreign exchanges.
* The government A has to cut its expenditure on social services so as to pay the debt with interest.
* For a dead weight debt, the future generation has to suffer to pay the debt whose benefits they do not see.
* This external debt may transform the country A into dependent and hinders its self-sustenance.
* External debts lead to balance of payment problems and worsen poverty since there is a lot of capital outflow.

 **The implementation of the country B decision of increasing taxes and cut of government expenditure may cause the country the following problems: (1mark x7=7marks)**

*- Ceteris paribus*, a cut in government spending would be expected to have a negative impact on aggregate demand. The country would expect a fall in AD. This would lead to lower economic growth and lower inflation.

- In recession a cutting of government expenditure should worsen recession

- Increasing taxes discourages investment, which leads to lower people in work and therefore lower income tax.

- With increasing tax consumer spending become low and therefore VAT receipt are lower.

* With increasing tax firms make less profit therefore a fall in corporation tax.
* The fiscal tightening can cause lower economic growth which in turn should cause a higher cyclical budget deficit.
* Cutting government expenditure leads to low aggregate demand and supply if you cut public sector investment.
* In implementing the government expenditure cut policy, we should assist at low interest rates and boots spending high export and weaken exchange rate.
* When cut spending is associated with fixed exchange rate, contributes to deflation and lower economic growth.
* Spending cut should contribute to a decline of economic growth, leading to lower tax revenue and rising debt to GDP.

A student may explain at least seven Problem for the country A and 7 problems for the country B to get the full marks. **(1mark x7=7marks) x2=14marks)**

14.a ) Macroeconomic problems faced by country A are : high rate of inflation and unemployment problem. **(2marks)**

b) Other macroeconomic problems not given in the passage:

- Low economic growth **(1mark)**

- Balance of payment disequilibrium **(1mark)**

**-** Low or high interest rates **(1mark)**

b) Effects of high rate of unemployment: **(5 x2marks=10marks)**

 - Unemployment is the state of the economy in which some workers are not employed in the production of goods and services.

- High rate of unemployment will cause the economy to lose a large amount of output. It will cause a large number of people to lose their income. Further, if the unemployed remain unemployed for a long period of time, they may lose their skills and knowledge, creativity etc.

- When unemployment is high, the employed will lose some of their income in the form of pay cut.

* High unemployment will cause firms to lose a large amount of profit. When unemployment is high, the government will lose a large amount of tax revenue. High unemployment will lead to a high crime rate, high divorce rate, high suicide rate and social unrest.
* In the country A we will assist at social and economic dualism among the employed and the unemployed groups which affects the level of development since some will look at themselves as unprivileged.
* High unemployment rate may retard economic growth in the country because it brings about discontent among the citizens and the citizen resort to criminal activities which will in turn lead to destruction of property and retards development.
* In the country A, the high rate of unemployment may cause the high dependence burden which increases the government expenditure in order to support the helpless.
* Because of high rate of unemployment , the country A may suffer from getting low tax revenue due to low tax base and consequently the country A may be unable to carry out its activities like infrastructures development i.e roads , hospital and schools among others that are vital for development.
* From high rate of unemployment results the brain drain because people’s desire to find employment thus the country loses the qualified and able people which would have been used for development.
* Because of high rate of unemployment, the rural urban migration will come up. Arriving in urban areas, people who left the rural areas become unemployed in urban areas and increase the crime rates, slums among others in urban areas.

**15. a) This movement is called Rural urban migration (1mark)**

 **b) The causes of rural urban migration: (1mark x7= 7marks)**

**- Population pressure on land** brought about by high population growth rates.

**- The urban – rural differences**: generally, people in towns earn higher incomes than the population in the rural areas. This attracts more people to urban areas.

**- Inappropriate education:** the youth in labour age, after acquiring inappropriate education tend to move to urban areas for white collar jobs.

- **The expected urban – rural public goods gap**:

There is adequate supply of infrastructural facilities in urban areas, e.g. good roads, Hospitals, schools, etc.

* **Physical factors:** Unfavorable weather conditions which render labour unemployed, may force people to look for sources of income in towns.
* **Criminals in rural areas emigrate** toward the urban areas.
* **Cultural factors:** urban centers offer high expectation of arise in social prestige. This attracts people from rural areas to urban centers with hope to enjoy modern life.
* **Government policies**: when government policy of localization of industries is poor at extent to which all industries are located in urban areas**,** people leave the rural areas and in urban center ton search for job.
* **Insecurity:** It may be insecurity in some rural areas. This pushes people to immigrate in urban centers.
* The presence of friends and relatives in urban areas attracts people from rural areas.
* **Low rates of investment in agriculture in rural areas**: in developing countries, land is fragmented and each small part is owned by each family.

c**) Different ways through which we should reduce rural urban migration:**

 **(1mark x7=7marks)**

- Control the rate of population growth, to reduce population pressure on land.

- Changing the education system so that there are more job creators than job seekers, so the change of education system to prepare the youths for village is a necessity.

- Improving the agricultural sector in the rural areas and land reform policies to enable more equitable land ownership, modernization and commercialization of agricultural products.

- Small –scale and large scale industries in rural areas should be encouraged.

- Improving and developing infrastructures in rural areas such roads, electricity, water, etc.

- Services like tourism, commerce, etc, should be promoted.

- Redistributing social services like Hospitals, schools and banks to rural areas.

- Reduce dependence on agricultural activities alone in rural areas by engaging people in such activities as brick laying, carpentry, cottage industries etc.

- Encouraging urban –rural migration policy by providing tax and non-tax incentives to people moving from towns to rural areas

- Encourage the role of co-operatives in rural areas to help farmers get credit and supply of co-operant factors.

- Reduce dependence on nature e.g soils, rainfall etc, and introduce irrigation schemes where possible, so as to allow continuous agricultural activities and hence limit the movement of people from rural areas.

- The government should also adopt an extensive policy of encouraging people to go back to the land i.e ‘’go-back-to land’’ policy.

16.a) Efficiency of labour refers to the ease with which labour is able to produce good quality and high quantity output in the shortest time possible.

**The following** can help to promote the efficiency of labour:

 **(2marks X4=** **8marks)**

* **INCREASE IN WAGES** is one of the factors of promotion of efficiency of labour in the way that it is an incentive that makes the laborer hard worker and efficient. Other factors that can promote efficiency of labour are:

**- TECHNICAL EDUCATION: -** Vocational, technical and commercial colleges should be opened to provide technical skill to the people. Modern industry, agriculture, banking, transport and commerce require highly skilled persons. And when modern equipment are provided and used by skilled man power efficiency of labour tends to be high compared to situations where primitive technology is used.
**- CARE OF HEALTH:** Health facilities should be provided to the labourers. A healthy worker can work more efficiently as compared to sick worker. All the factory owners should opened the health clinics in their factories and regular medical check-up should be compulsory.

* **Creating goods working conditions: If the working conditions like security, transports allowances are provided, the efficiency of labour** will be high and it will be low when these conditions are power.
* **MORE TRAINING FOR SPECIALIZATION:** more training enable labour to be more skilled, experienced and specialized hence more efficient.
* **INCREASES IN ALLOWANCES: -** Various types of allowances like dearness and bonus must be increased. Special allowances should be given to the efficient workers.

**- LABOUR LAWS: -** Government should also frame the strict labour laws. In case of accident special compensation should be given. In case of industrial dispute courts should be established. This step will provide the security to the labourers and they will work with full concentration.
* **PROVIDE QUALITY AND QUANTITY OF OTHER FACTORS OF PRODUCTION:** if other factors of production are available and of high quality, labour efficiency will be high and it will be low if the other factors of production are not enough and with poor quality.
* **TO ENSURE A GOOD POLITICAL ATMOSPHERE**: when there is political security in the country, labour is concentrated and hence high labour efficiency.
* **CREATE FAVORABLE CLIMATE CONDITIONS**: installation of air conditioning system in working areas in order to warm them is a requirement to ensure efficiency of labour. Harsh climatic conditions such as very hot and very cold tend to make labour inefficient but if conditions are ideal or favorable, labour will be efficient.

**- ESTABLISHMENT OF THE CANTEEN: -** Lunch and dinner facility should be provided to the workers. On the lower rates food should be provided during the working interval. In this way time of the workers will be saved and their efficiency will increase.
1. In developing countries there are manpower problems. Different measures should be taken by those countries to minimize this problems:

 **(1mark x7=7marks)**

* Government should make appropriate manpower planning necessary to minimize such man power problems.
* Government should deploy the workforce appropriately in order to reduce shortage of manpower in some sectors of the economy.
* The education system should be revised to avoid the production of more job seekers instead more makers should be produced.
* Retrenchment e.i the old, the sick and the disabled workers should be terminated to create an effective labour force.
* Official exchange of manpower should be enhanced between governments, to not only reduce shortages of indigenous manpower but also increase the supply of labour in all productive sectors of the economy.
* Promotion of science and technology in all the needy fields, e.g medical, engineering etc.
* Encourage the indigenous manpower to return home to serve in fields where there are apparent shortages.
* There is need to improve working conditions and increase workers’ morale so as to reduce brain drain. e.g setting of a favorable minimum wage attractive the highly skilled indigenous manpower.
* Encouragement of local entrepreneurs by enabling them to acquire loans so as to increase the supply of local entrepreneurs.