Economics I **016** **04 Nov.2011 8.30am – 11.30m**

REPUBLIC OF RWANDA

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ADVANCED LEVEL NATIONAL EXAMINATION 2011

SUBJECT: ECONOMICS

PAPER I BASIC PRINCIPLES OF ECONOMICS

COMBINATION: HUMANITIES (MEG HEG, PEM)

DURATION : 3 HOURS

INSTRUCTIONS:

This paper consists of **TWO** sections A and B.

Section A: Answer **ALL** questions. **(55 marks)**

Section B: Answer **any THREE** questions of your choice. **(45 marks)**

SECTION A: Attempt all questions (55 marks)

1. (a) What is meant by price control. **(1 mark)**
   (b) State any four forms of price control in an economy. **(4 marks)**

2. (a) Explain three fundamental economic problems. **(3 marks)**
   (b) Distinguish between inflationary gap and deflationary gap. **(2 marks)**

3. (a)Define the term complementary demand **(1 mark)**
   (b) Explain the relevance of the concept of price elasticity of demand to government. **(4 marks)**

4. (a) Study the table below and answer the questions which follow .

Price of commodity x (kg)	Quantity demanded of commodity x (kg)
2000	400
2500	200

$\frac{\Delta Q \cdot P}{\Delta P \cdot Q}$

Required;
(i) Calculate the price elasticity of demand. **(1 mark)**
(ii)What form of elasticity does the commodity have and why? **(2 marks)**

(b)Under what circumstances will price elasticity of demand for a commodity be price elastic? **(2 marks)**

5. (a) What is imperfect oligopoly. **(2 marks)**
   (b) Give three examples of imperfect oligopoly in your country. **(3 marks)**

6. (a) Explain the Quantity Theory of Money. **(2 marks)**
   (b)Given that the Quantity of Money in an economy is 1,000,000 Rwf. Its Velocity in circulation is 20 and the number of transactions made are 650.
   Required: calculate the general price level in an Economy. **(3 marks)**

7. (a) State any four indicators of economic under development in your country. **(2 marks)**
   (b)Give any three millennium development goals that your country is under taking. **(3 marks)**

8. (a) What is imported inflation? **(1 mark)**

(b) State any four policy measures that can be used to reduce imported inflation in your country. **(4 marks)**

9. (a) What do you understand by the term geographical mobility of labour? **(1 mark)**

   (b)Mention any four factors which determine the supply of labour in Africa. **(4 marks)**

10. (a) Differentiate between autonomous items and accommodating items in the balance of payment accounts. **(2 marks)**

    (b) Give three reasons why government ownership of public enterprise is desirable. **(3 marks)**

11.(a) What is commercial policy? **(1 mark)**

   (b) State any four instruments of commercial policy in your country. **(4 marks)**

SECTION B: Answer Only Three questions (45 marks)

12.(a)Study the table below showing input and out put relationship of TP, AP and PM in short run combination and answer the questions that follows.

Quantity of Labour	Total Product (TP)	Average Product (AP)	Marginal Product (MP)
1	43	43	43
2	160	-	-
3	351	-	-
4	600	-	-
5	875	-	-
6	1152	-	-
7	1372	-	-
8	1336	-	-
9	1656	-	-
10	1750	-	-
11	1815	-	-

(i)Calculate the Average Product and Marginal Product. **(5 marks)**

(b) Explain why a firm will continue to operate even when its total revenue is less than its total costs. **(10 marks)**

13. (a) why is it necessary for your country to control rapid population growth rate. **(8 marks)**
(b) Examine the policy measures the government of Rwanda has adapted to control population growth rate. **(7 marks)**

14. (a) Account for the causes of inflation in last five years in your country. **(8 marks)**
(b) What policy measures have been taken to control inflation in your country? **(7 marks)**

15. (a) Briefly explain the big push theory of development. **(2 marks)**
(b) Discuss benefits and costs of economic growth. **(13 marks)**

16. (a) What is multinational corporations? **(1 mark)**
(b) Assess the contribution of Multinational Corporations in the economic development of your country. **(14 marks)**

ECONOMIC MARKING GUIDE PAPER I 2011

SECTION A

Q.1.a) Price control is a situation where the government fixes prices for goods and services in from of maximum and minimum price to protects consumers and producers.

b) Four forms of price control in an economy:

- **Maximum price legislation**
- **Minimum price legislation**
- **Rent control**
- **Resale price maintenance (RPM)**
- **International commodity agreement**
- **Rationings resources commodity**
- **Price support / buffer –stocks /sign treated between consumer producers**

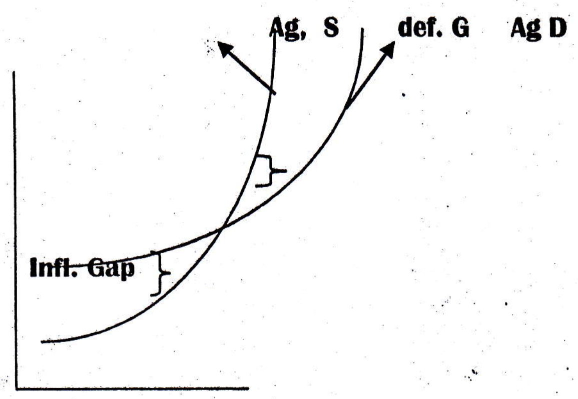
Q.2.a) The fundamental economic problem are:

- **Scarcity: Means that all resource are relatively les compared to man's desire for them**
- **Choice: Refers to the taking of the night decision at the right time**
- **Opportunity cost : is the alternatives foregone when choice is made if the pupil cite only we give full max.**

b) i) Inflationary gap: this is a situation where the aggregate demand exceeds aggregate supply at full employment level.

ii) Deflationary gap : refers to the situation where aggregate supply is greater than aggregate demand (A,D)at less than full employment

Q3. a)



Complementary demand : is the demand for commodities which are used together such that one increase in demand for one automatically increases the demand for another

e.g: Cars and petrol

b)<u>Taxation policy :</u> the effective mess of the government use the concept of price elasticity in fixing taxes so or to raise revenue

- Devaluation: The effectiveness of the government policy of devaluation in over coming BOP problem depend on price elasticity for export or imports.
- Determining subsidies to be given to producers and consumers un determining which consumers and producers to be subsidized government uses the concept of price elasticity.

e.g: Government subsidies consumers on good which inelastic demand and producers on goods with elastic demand.

- Price control :The government price control policies are based on the concept of price elasticity of demand . Government fixes maximum on essential commodities with inelastic demand to protect consumers from being exploited by sellers through high prices.
- Determining pubic utilities : The government basis its decision determining which industries become public utilities with elastic demand
- those industries whose products have inelastic demand which are net up by the state to provide essential services to the people e.g : water and electricity.
- Protection of domestic infant industries : protection policies can only be successful when tariffs are imposed on commodities with elastic demand
- Terms of trade : the terms of trade are favorable for a country . when its exports have inelastic demand abroad and imports have elastic demand at home .
- Wage determination : Government use the concept of price elasticity to determine wage . high wages are paid to skilled labour with inelastic demand & 1000 wages to unskilled labour with elastic demand .

Q4 a) $PED = (-)\frac{DQ}{DP} \times \frac{P}{Q}$

$= \frac{200-400}{2500-2000} \times \frac{2000}{400}$

PED =2

b)The price elasticity of demand for the commodity is elastic this is because it is more than one .

- c)When the commodity has money uses
- when the commodity has many substitutes
- when the commodity take large proportion of consumers income
- when the commodity is not a necessity but a luxury
- when the use of commodity is easily post paned
- when the commodity is perishable
- when the consumers are low not income earners
- When the commodity is not convenient to consumers
- When the consumers are aware of the market conditions

Q5 a)Imperfect oligopoly is a market structure with a few firms selling differentiated products .

i) Example of imperfect oligopoly

- The petrol industry e.g Kobil gasposco
- The cement industry at Cyangugu
- The tea industry e.g Rwanda mountain tea
- The mattress industry e.g : Rwanda form
- The cooking oil
- The broad industry
- The soap industry SULFO
- Beer industry BRALIRWA
- Newspapers industry
- Transport agency

Q6. A) the quantity theory of money state that the general price level is determined by the volume of productions and the quantity of money in circulation.

The theory represented by the equation MV=PT or according prof.ir Ving .Fisher

P=MV /T

b)M V=PT .so P= M V / T

1000 000 X20 /650 =20 000 000 /650 =307693

Q7. A) Indicators of economic under development in your country

- Viscous circle of poverty

Low incomes

Low capital Accumulation

low savings

Low investments

- Low levels of technology
- High population growth
- High unemployment
- Narrow domestic foreign markets
- Low level of resources utilization
- Low income per capital
- Small industrial sectors
- Low standards of living
- Dominance of primary sector (agriculture)
- Low levels of social and economic infrastructural development
- High level of inflation
- High level illiteracy

- High dependence on MDCs (most development countries).

b) MDGS.

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat AIDS, Malaria and other diseases
- Ensure environment sustainability
- Develop a global partnership for development

Q.8. a) imported inflation .this is the type of inflation which result form importation of commodities from economics experiencing inflation

- b)import substitution industrial strategy to reduce dependency on imports
- subsidizing importers of essential commodities
- trade liberalization
- total ban on imports
- devaluation
- import restriction by imposing heavy tax on imports
- use of domestic raw material where possible restrictive monetary policy

Q.9.a) Geographical mobility of labour refers to the ability of labour to move from one geographical region to another .

b)factors which determine the supply of labour in African

- The degree of mobility labour if the degree of mobility is high more labour will be supplied
- The working conditions of labour
- The wage offered
- The retirement age
- Sex composition
- The period of training
- The availability of skills
- The size of the population
- N°of mental incapacity of labour
- The net flow of workers
- Government policy
- Real wage
- Retirement benefits
- The general social and political conditions in the country

a)Autonomies terms refers to the different terms on the current and capital accounts to off set a balance of payment surplus

e.g; investment a broad and advancing short term lean going with surplus

while accommodating items are these items in form of reserves required to off set a balance of payment problem

e.g. barracking from ,MF to fulfill the principle that B.O.P should always balance going with deficit

b)why government ownership of public enterprise is desirable

- Some enterprises have to be controlled by the state to protect the public from monopoly situation
- Some enterprises are connected to the security
  e.g. Making on fire arms hence they have to be controlled by the state
- There are some services which are essential to the public there fore they have to be established using state fund from taxation e.g: education , health ,water , electricity
- It may be necessary to establish some enterprise in some places in order to create employment and reduce income inequalities yet this is not the objective of private sector
- The government ,unlike the private sector is interested in fair distribution of development projects through the country:
  e.g: construction of roads which penetrate even the remotest areas of the country
    - Projects initiated by the government attract foreign capital and technology more them these established by private sector
    - Foreign capital and technology more them these established by private sector
    - Some enterprise require high capital investment which the privates sector only that offered /control inflation

11. a) commercial policy refers to the government policy aimed at influencing and directing the volume and level of trade in an economy

b) Instrument of commercial policy in a country

- Taxation or subsidization
- Trade embargo co or total born
- Price control
- Licensing
- Quatas /trade agreements
- Liberalization
- Direct administrates control
- Quality control requirement
- Foreign exchange policies
- Transport discrimination
- Devaluation
- Economic integration

Q13) a)

- To reduce unemployment problem,
- reduce population pressure on land
- To bring the population growth rate in time with economy's ability to sustain it
- To reduce poverty levels in the country
- To ease the pressure on the existing social and infrastructures
- To reduce P.OB problem
- To improve on the quality of life Eg; Medical housing, education standard, nutrition to achieve a faster rate of economic growth,
- To increase the level of domestic savings and investment
- To control inflation
- To reduce social costs like congestion
- To increase life expectancy by improving on the quality of life
- To reduce government expenditure
- To reduce the rate of dependency

b) The policy measure the government of Rwanda has adopted to control population growth rate

- The government has sensitized the population on the danger of having big families through education programs on radio, television and the press
- Through the ministry of health, the government has encouraged family planning through the contraceptives pills etc....
- Banning prostitution
- The government has encouraged the education of women hence reducing birth rates
- The government has maintained a high marriage age of 21 years
- The bill to legalize the number of children per family has been in parliament ie 3 children per family
- The government in economic and political activities and therefore gain full employment with less time for many children through affirmative action
- Penalties for abolition has been reduced and discussions over legalizing abolition are in process
- It has encouraged monetization of the economy by reducing the rural subsistence sector which has made it expensive to maintain large families there by encouraging small families
- Universal primary education has to some extent enable many people to stay for some time in school hence postponing their marriage,
- It is used civil marriage regulations to promote one man one wife policy

- 14) a) Ever escorting price of petroleum products
- Expansionary monetary policies which will increase the emprenuership of in circulation and aggregate demand
- A cute shortages of some essential product of life
- Poor performance of agricultural sector
- Importation of products from inflation raw materials
- An announcing effect of the budget
- Desire for excessive profits by producers and business men
- Increased government expenditure on salaries and wages
- Excessive demand compared to the amount of goods and services in the economy resulting into demand pull inflation
- Expectation and speculate behavior
- Supply rigities in agricultural sector eg; persistent drought which affect agricultural sector
- Depreciation of local currency resulting into high price of imports
- Excessive printing of money by the central bank leading to demand pull inflation
- Increase in population
- Rural – urban migration which increases demand in urban areas and reduces rural capacity to reduce
- The central bank of Rwanda has imposed restrictive monetary policy to control money supply
- The government has increased taxation to reduce people's disposable income there by controlling demand pull inflation
- Maintenance of peace full political stable atmosphere in most parts of the country and this has encouraged domestic production
- Controlled borrowing of government from the central bank
- Liberalization of the economy has increased the volume of goods and services
- The government has encouraged both local and foreign investment through provision of economic incentives such as that holiday
- Privatization of public enterprise has increased production of goods and services and reduced scarcity inflation.
- Modernization of agricultural sector to reduce dependence on nature eg ; Through irrigation and diversification
- Controlled printing and issuing of currency has reduced demand pull inflation
- Improvement of infrastructure development eg; roads, power supply , water and telecommunication
- Networks has increase the productive capacity of the economy
- Selling securities to the public eg; sell treasury bills bands has reduced money supply and controlled demand pull inflation
- Reduced government expenditure through privatization of inefficient parastatal and retrenchment in the civil source.
- Currency reform i.e introduction of new currency in circulation followed by revaluation in helped to cut down inflation

Q15) a) the big push theory of development: this is theory of development that advocates for massive investment in a various industries and economic infrastructure in other to transfer in the back agricultural economy with a short period of time.

The theory of big push states that all LDCS require take off into a periodic of self sustaining economic growth massive investment program designed to promote rapid industrialization and building up of economic infrastructures.

b) Benefits of economic growth:

- **Increased volume of goods and services in the country**
- **Increased tax revenue due to the widened tax base**
- **Increased material standard of living due to increased in volume and variety of consumer goods and services**
- **Increased employment opportunity in different sector**
- **Improved economic infrastructure eg: roads, hospitals, schools etc........**
- **Improvement in the country's balance of payment position**
- **Reduction in dependence**
- **Urbanization ,if growth of town rate**
- **Technological progress**
- **Fall in the general price level due increase in the volume of goods and services**
- **Reduced priced price and increased income will lead to increase in the general standard of living as well as life expectancy**

<u>Cost of economic growth</u>

- **Rural urban migration and sts consequences like growth eg slums high crime rates etc............**
- **Income inequalities**
- **Resource depletion due to over exploitation**
- **Technological unemployment that results from increased use capital intrusive technology like computers and robots in the industries**
- **Pollution of water arising out of industrialization.**
- **Increased occupational and industrial hazards together with occupational diseases such as cancer and T.B**
- **Environmental degradation in form of deforestation and reclamation of wethalands**
- **Foregoing leisure in the short run in order to attain economic growth**
- **Debt burden eg large public debt and associated debt services problems**
- **Cultural decency erosion of cultural value in favor of modern west culture**
- **Find repatriation by foreign investors and MNCS**
- **High sacrifice of consumption of consumer goods for future**

Q16) a) Multinational corporation are international companies which have head quarter in one country but with a variety of branch offices and areas of operation in number of countries both developed and developing countries eg: Coca-Cola companies ,shell , Sony etc

b) Positive contribution of NNC'S to the development of Rwanda

- **Creation of employment opportunities**
- **Source of government revenue through taxation**
- **Closing savings investment gap by supplement of government expenditure**
- **Promotion of technological transfer**
- **Development of infrastructures**
- **Promotion and development of local skills**
- **Acceleration of growth of industries sector hence development of the economy**
- **They facilitate the development of wide variety of quality goods**
- **They encourage competition of which lead to improved efficiency of local resources**
- **Filling manpower gap**
- **They fill foreign exchange gap**
- **They promote international cooperation and increased volume of goods and services**

Negative contributions of MNC'S

- **Accelerates of capital out flow hence worsing B.ap problems**
- **They worsen income inequalities**
- **They cause unemployment problems due to the use of capital intensive technological**
- **Rural urban migration due to concentration of activities urban areas**
- **Regional imbalance due to the performance of urban concentration of than investment**