

**ECONOMICS**

**SENIOR FIVE END OF YEAR EXAMINATIONS, 2021**

**SUBJECT: ECONOMICS**

**DURATION: 2 HOURS**

**INSTRUCTIONS:**

1. Write your names and class on the answer booklet
2. Do not open this question paper until you are told to do so.
3. Attempt **all** questions in this paper**.**
4. 6) Use a **blue** or **black** pen.

 ECONOMICS S5

 COMPREHENSIVE ASSESSMENT S5 : MARKING SCHEME

 1. a= T ; b= T ; c= T , d= F , e= F

2.a) If one firm increases the price in perfect completion market nobody will buy from the firm, buyers would buy from other sellers. **(1mark)**

b) If a firm reduces the price below market price in perfect competition market, other firms will do the same. **(1mark)**

c)

Price

 **(2marks)**

 Po D=AR=MR=Po

1. quantity
2. In perfect competition market the price is constant. The price is the average revenue, **marginal revenue equals average revenue. (1mark)**

3. Monopoly is a market situation where there is one seller of a product, which has no close substitute. The following are measures to control monopoly**:(1mark x5=5marks)**

- The government can **fix price** of commodities

**- Taxation**: government can impose taxes of monopolist firms to tax away the abnormal profits. However, the, the monopolist can shift the burden of tax onto the buyers in form of higher prices.

- **Antimonopoly registration:** i.e laws imposed to control monopolies. Such as law prohibit monopolization, and collusion among firms to raise prices or inhibit competition

**- Nationalization of monopoly** by the government

**- Subsidization:** new firm can be subsidized so that they compete with the monopolist firm.

**-** Removing the basic of monopoly e.g removing tariffs on imported goods. = encouragement of import.

- There may be resale price maintenance whereby the producers set prices at which sellers should sell the goods to avoid charging high prices.

- There may be demonstration by consumer groups especially boycotting the goods of monopolists so that the prices can be lowered.

4. Reasons why developing countries use the output approach to measure national income. (**1markx5=5marks)**

* LDCs have inadequate information on the incomes of the people especially the self-employed in informal sector and this makes the income approach less useful.
* Developing countries do not have information regarding private consumer expenditure and this makes the expenditure approach less useful.
* Using the income approach and the expenditure approach will involve double counting. So to avoid this, they use the output approach.
* The expenditure approach cannot be depended upon because on intermediate goods may be valued yet expenditure should be on final goods and services.
* Under the output approach, output of individual sectors can be determined easily to determine the exact output (value added).
* Government expenditure abroad is hard to estimate and this makes the expenditure approach less useful.

5. **Causes of low per capita income in Rwanda**

 - **Low levels of education:** This makes the people get casual low-paying

jobs leading to low levels of income and hence low per capita income

* **Under developed infrastructure** especially in the rural areas: This complicates movement of people and their goods from one place to another. This further limits the level of earnings of the people and some of the output may remain unsold.
* **High levels of unemployment:** 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 levels of income:** Some institutions give people low incomes despite their high contributions to the economy this explains 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 the 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 a low per capita income.
* **Lack of capital to invest in businesses:** There is still lack of enough capital to invest in production activities. This is evidenced by the low level of manufacturing industries. This leads to low productivity, low national income and finally low per capita income.
* **Low prices 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.

6. a) Credit creation is the process by which commercial banks create credit by lending out money using cheques. **(1mark)**

b) Factors that limit commercial banks to create credits in Rwanda include the following:

* Difficulty in mobilizing savings
* Illiteracy of people who do not keep their money in banks
* Too much government interference in the activities of the banks makes it hard for them to carry their activities
* Existence of large subsistence sector
* Lack of credit worthiness among borrowers
* Too much liquidity preference
* Low demand for loans
* Inflation which limit savings
* High competition for customers
* Poor infrastructures **( 1mark x4 =4marks)**

7) **Ways through which government of Rwanda may expand its revenue:**

- Ensuring political stability and security in all parts of the country to encourage smooth production and business

- Attracting more investors both local and foreign so as to expand the tax base

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

- Train and retrain 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 forms of taxes both direct and indirect.

**-** Tax education to the public through radios, televisions, posters and seminars to reduce tax defaulters.

**-** Strengthening anti-smuggling measures.

- Fighting corruption in all revenue collection offices.

- Seeking aid and grants. Privatization of government enterprises which don’t bring in much revenue to the government in form of profits. **(*1mark x5=5marks)***

**8.** a) Demand –pull inflation or excess demand inflation is the persistent increase in general prices of goods and services brought about by demand exciding supply of goods and services at full employment level of income.  ***(2marks)***

b) Policies to address (reduce) demand – pull inflation should be oriented towards reducing demand in the economy. Such as:

* Restrictive monetary policy
* Open market operations (OMO)
* Legal reserve requirement (Variable reserve requirements)
* Bank rate
* Selective credit control
* Moral suasion / persuasion
* Margin requirement
* Fiscal policy (Reduction in government expenditure and increased taxes)

9. **Distinction of the terms:**

a) Overpopulation is the situation in which people exceed resources while under population is a situation in which resources exceed people. **(2marks**)

c) Population density is the number of people over a square kilometer while population

distribution is the way people spread out in an area. **(2marks)**

d) Demography is the study of population while migration is the movement of people from one place to another.

10. a) Poor education system has been contributing to the unemployment in Rwanda: **(2marks)**

- The high rate of unemployment in Rwanda is a result of **poor education** system which is no longer changing; **it prepared young people basically for white collar jobs which have been declining across time. Or**

- Because of poor education system and curriculum which was skills based, **the skills and competences acquired by young people didn’t, doesn’t match with the requirements of labour market** because VET graduates often lack some confidence to stand on their own capacities to start self-employment. **or**

- Because of poor education system, there was often smaller number of young graduates who were able to **create their own employment**, **they were job seekers not job creators.**

b) Land **over exploitation has been contributing to unemployment in Rwanda:**

- The agricultural sector is the largest employer among the sectors in the country, but this sector is largely less productive and this is due to smaller range (size) of - land share and overexploited. This contributes to low output and low incomes to the rural dwellers.

**Or the low level of income from the overexploited Rwandan land** does not allow other sectors, particularly industrial sector, to develop themselves and Create employment opportunities for the Rwandan increasing population.

11.a) Price relative =$\frac{current year price (Pn) }{base year price(P0)}$ x 100

i) Price relative of fish, given Pn=1.6, P0=1.2

price relative of fish = 

ii) price relative of rice given Pn=1.2, P0=0.80

price relative =

iii) price relative of beans given Pn=0.50, P0=0.40

price relative = 

iv) price relative of salt given Pn = 0.30, P0=0.60

price relative =

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Articles  | Year prices in $ | Year 2 price S in $ | Price relative  | Price change =index price -100 % |
| Fish  | 1.20 | 1.60 | 133% | 33% |
| Rice  | 0.80 | 1.20 | 150% | 50% |
| Beans  | 0.40 | 0.50 | 125% | 25% |
| Salt  | 0.60 | 0.30 | 50% | -50% a decrease in price  |

For price relative: Calculation and final answer filled in table =1mark so **(1mark x 4= 4marks)**

**For price change:** Calculation and final answer filled in table =1mark so **(1mark x 4= 4marks)**

b) The average price change =$\frac{sum of price relatives}{sum of all commodities }=\frac{133+150+125+50}{4}=114.5$ **(1mark)**

c) Problems of compiling index numbers:

- There are different ways and formula of compiling index numbers. The values calculated may differ by the method used and this makes comparison difficult.

* Choosing the base year: Because of inflation, it is difficult to get the year when prices were stable.
* It is hard to include all commodities in the index. Representative commodities may not show the cost of living of same groups of people although attempts are usually made to include in as many commodities as possible.
* Because of changes in tastes and preferences, weights (relative importance that people attach to commodities) change over time and, therefore, there is a need to compile new index numbers over time.
* Weights always change because of new discoveries, innovations and changes in consumption patterns meaning that the importance or the value of the commodity may vary in the same year.
* The change in the general price level may be due to change in the quality of products. This may be misinterpreted to be inflation.
* Differences in income, for example the rich and the poor consumer different commodities. Therefore, one index cannot reflect the change in cost of living of all income groups.
* The introduction of new commodities and the changes in the tastes and preferences also lead to shift to other commodities, hence a problem when comparing the prices in the different years. **(1.5marksx4=6marks)**

12. a) Demand for money is the desire to hold wealth in form of money instead of investing it. Demand for money is usually for transaction, precautionary, speculative or financial motives **(2marks)** While money supply is the quantity of money which is in circulation in a particular country, at a particular time, which can be in form of currency or bank deposits.

 **(2marks)**

b) **The quantity theory of money:** according to this theory an increase in money supply will bring about a proportionate change in prices, provided the velocity and the number of transactions which take place remain constant. **(1mark)**

 Professor **Irving Fisher expressed the quantity theory of money using the following equation: PT=MV (1mark)**

where M= quantity of money

 V= velocity of money e.i the number of times one unit of money is used to make

 transactions.

 T= the number of transactions money makes.

 P= The general price level

 According to the theory P=  **(1mark)**

Assuming V and T are constant an increase in M will bring about a proportionate change in P. **(1mark)**

Supposed T= 100, V=10, M=500

 P= (500x10)= 50

If M is increased from 500 t0 1000, then P will also double. Thus P= (1000x10): 100= 100 ( supporting example =**(1mark)**)

c) The quantity theory of money has the following limitations:

 **(1markx6=6marks)**

- Factors which are assumed constant do not remain constant always.

- The theory states that changes in P are proportionate to changes in M. However, prices of different commodities also do not change in the same proportion.

- The theory explains only how changes in the value of money are brought about, but does not explain how the value of money is determined.

- The theory cannot explain arise in P due to an increase in costs of production.

- The quantity theory of money is not a theory at all but a simply a way of showing how M, V, T and P are related to each other.

- It is unrealistic to talk about a general price level.

- The theory does not consider the rate of interest.

- When output increases and employment expands M may increase.

- The theory ignores the fact that some transaction are carried out through the barter system.

- The theory emphasizes the supply of money but ignores the demand for money.

- Changes in P can be influenced by the government.

13.a) Investment can be defined as the expenditure on capital goods with an aim of increasing production.  or this is the addition to the stock of capital. It also refers to the purchase of capital goods or putting into use capital to produce capital. It is limited in Rwanda due to;

**- Limited markets** due to low incomes of the people and this limits the investors from putting up mega structures in terms of investments.

**- Under developed infrastructure** in some areas especially in rural areas limits the movement of potential investors, goods and services from areas of production to the markets.

**- Unfavorable investment climate** in form of high taxes charged by the governments to investors discourage them from investing. However, the trend is changing where investors are given tax holidays depending on their capacities

**- Limited capital**. There is still a problem of limited capital where by the local people do not have the necessary capital to invest. This leads to domination of foreign investors who carry of capital outflow through profit repatriation.

**- Political insecurity** in some areas especially those surrounding Burundi and Congo. The instabilities in those countries cause panic in the Rwandan areas adjacent to those areas. Hence the investors fear to invest in such areas.

**- High population growth rate leads to increase** in the dependence ratio among the families leaving little disposable income for savings, and investment government.

**- High level of liquidity preference**. Many people prefer to hold their money in cash or near cash form because of different motives such as precautionary, speculation among others. This limits their capacity to invest.

**- Limited entrepreneur skills needed for inventing and innovating**. Still the levels are low meaning that there are no new things that may come on the market. The man power needed to carry out the inventions is still low hence living the levels of investments

**- Competition from outside countries** that bring in their goods on the local market at a low price compared to the one at which home made goods are sold. This diverts peoples’ attention to buy cheap imported goods leaving the local goods without market.

**(Definition 1mark+ Any 7 points each 1mark =8marks**

**b) Measures I would put to improve investment in Rwanda.**

**- Expanding the market through integration and signing treaties with other countries.** This will help to solve the problem of lack of market for the home-made products and furthermore it will bring in more foreign exchange.

**- Developing more feeder roads in addition to the ones that already exist**. These will help to link the rural inaccessible areas to the main roads and will ease the movement of goods and services hence attracting more investors to those respective areas.

**- Availing a conducive investment climate**. This is through reducing the rates of taxes that the beginner firms can pay. This has further been helped by the government setting up investment zones in the areas of Kabuga.

**- Availing capital.** This can be through the commercial banks giving loans and credit at low rates of interests to attract the potential borrowers. Furthermore, requesting for lower collateral security when seeking loans. This will attract many people to get soft loans that can be used for setting up investments.

**- Strengthening security in areas near countries with instabilities.** This can be through working hand in hand with the respective governments or more deployments in those areas. It will create confidence on the local people and the investors hence increase capital and investments in those respective areas.

**- Controlling the rate of population growth through a maximum number of children per family**. This will reduce the rate of dependence in the families and it will leave the people with enough incomes that can be used for savings and investments in the long run. Still it will reduce the government expenditure on social services leaving it with enough to invest in government owned parastatals.

**- Encouraging people to reduce the rate of liquidity and carry out savings**. This could be through increase in the interest rates offered on savings. In the long run it will lead to capital accumulation which can further lead to investments.

**- Improving entrepreneur skills needed for inventing and innovating**. This can be through on job training and through seminars and workshops. Furthermore, the government has embarked on competence-based form of education which helps learners to carry out research and critically think. This form will help students develop their own ideas leading to constant innovation and inventions.

**- Competition can be reduced through economic integration and specialization where countries within the same region produce different goods and sale to others**. Furthermore, it can be reduced through producing good quality output through research. The government can also carry out protection to shield domestic industries from competition.

**- Subsidization policy buy the government can help to reduce the problem of inadequate capital**. At the same time the goods produced will be sold at a lower price since the cost of production are also low meaning that they may be sold at a price lower than the foreign goods hence increasing their demand. **Any 7 points each 1 mark=7marks.**

14.a) Difference between relative and absolute poverty:
- Absolute poverty involves a lack of basic necessities including food, housing and
clothing. **(1mark)**
- Relative poverty occurs when people have less income than other people in the
country/unable to participate fully in the normal activities of their society. **(1mark)**
b) Advantages of fall in unemployment:

* **Higher output;** more people in working enable more products to be produced.
* **Reduced poverty**; more people in work will reduce those without an earned income and will raise tax revenue that might be spent on measures to reduce poverty
* **Increase in tax revenue**: extra tax revenue might be spent on a range of items including infrastructure and may reduce a budget deficit
* **Reduced government spending on benefits**. less government spending on benefits might enable a government to cut tax rates or raise spending on another area**. (2marks x4=8marks)**

 (c) **How fiscal policy may reduce unemployment.**

Physical policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence national economy. It can be used to reduce unemployment: **(1mark)**

- A cut in taxes may increase consumer spending/investment and so increase demand for
labour. **(2marks)**

 - A rise in government spending will increase total (aggregate) demand which will increase
demand for labour. **(2marks)**
- Government spending may create jobs directly in the public sector. **(2marks)**

15.a) When people refuse to work even when jobs are available, **it is called voluntary unemployment.** i.e. jobs are available but people are not willing to work at the ongoing wage rate. **(1mark)** Therefore, some people may refuse to work due to the following reasons:

**- Presence of low wages**. The low wages may not attract the labour to work even if the job is available

**- Desire to live on personal or family wealth**. Sometimes labor may live on already accumulated wealth that may be personal or for the family. So even if the jobs are available, the labour may not prefer to work

**- Presence of target workers.** These are people who work for a specific period of time because they want to achieve a certain target. After achieving their target, they may not go back to work even if the jobs are available.

**- Poor working conditions**. Sometimes workers prefer to work in luxuries or good working conditions so when the conditions of work are poor, they may not work even if the jobs are available.

**- Too much desire for leisure**. Some people to enjoy leisure to work since it is part of welfare. Those who prefer leisure may not work even the jobs are available. To them the opportunity cost for leisure is work

**- Unfavorable geographical conditions**. Some jobs are located in remote areas which may not be accessed by road because of the relief. Workers may not be willing to work in areas that are not accessible even if the there are jobs

**- High risks involved in doing the jobs**. Some jobs are risky for the workers. For example, jobs like mining, digging pit latrines fishing among others. Some of these may risky since they may involve death in case of accidents. So even if there are wages being offered, labour may not work

**- Early retirement by an individual**. Different countries have different retirement ages, for example in Rwanda the current retirement age is 55 years while the normal retirement age is 65 years. If the people have reached the retirement age, they may not be legible to work even if the jobs are available.

 ***any 7 points each 1mark.=7marks +1mark=(8marks).***

***b)* When all people are employed it is referred to as full employment**. **(1mark)**

 In Rwanda, it is difficult to get attain full employment because of the following reasons.

* **Low government expenditure**. The government expenditure is still low despite its arrangements of one cow per family however the trend is improving and more employment is to be created.
* **Contractionary monetary policy**. Many banks charge a high interest rate when people borrow loans. This has made many people shun away from the loan scheme hence little income to create jobs
* **Tight fiscal policy with high taxation**. The tax system is a bit tight and some of the small-scale businesses have hard to close down because of little earnings, still the would-be small-scale investors also fear to open up in fear of the tax system
* **Political insecurity**. Rwanda as a nation is politically stable however the surrounding countries mainly in the west such as Democratic republic of Congo, and Burundi in the south have caused insecurities on the areas that border with Rwanda. People who stay in those areas near the countries mentioned above not so secure leading to constant movement in other urban areas
* **Presence of disabled people**. These may not be able to take up some jobs that require people who are mentally and physically well. This type of is called residual unemployment and it is common in many countries due to disability of some people
* **Low levels of income**. The presence of low incomes sometimes leads people to leave work and secondly it is not able to help create more employment opportunities
* **Illiteracy among the people**. Some people are no educated and may not be employed in formal jobs available. Still they lack enough skills to compete in the labour market leading to constant unemployment.
* **Ignorance of the people about the existing jobs**. Because of low levels of advertisements and ignorance, some people may not be aware of the available jobs in the different areas. This has left employers lacking workers while at the same time the would-be workers lacking jobs
* **Use of capital-intensive techniques.** Some of the employments generating industries have resorted to use of capital-intensive techniques of production. This is to enable them produce more quality and quantity and the same time solving the problems associated with labour
* **Desire to live on accumulated capital**. Some people desire to live on accumulated capital and hence even if the jobs are available, there is always voluntary unemployment.
* **Large subsistence sector**. This is the production for home consumption and the incidental surplus is sold. This means that there are not enough earnings to by the people to help them put up investments that can create employment opportunities

**(1markx 6=6marks ) +1mark=7marks**

**16. Taxation** is a process of collecting tax revenue from different sources to be used by the government in the development of the economy. **(1mark)** This system faces different problems in Rwanda .

**a) Problems facing taxation system in Rwanda:(1.5x4=6marks)**

 **- Difficulty in determining the taxable income** because the government lacks records of all the people’s incomes and jobs. This is because some people do a lot of activities some of which may not be declared to the government.

**- High rates of tax evasion and avoidance:** There has been lotsof people refusing to pay taxes and others under declaring their incomes to the tax authority. This has however been reduced by the introduction of electronic billing machines which have been put in public buses like KBS, Royal buses among others. These machines automatically cut off the revenue when the user uses it.

* **Large subsistence sector reduces tax base:** Most of the people

grow food for home consumption. They therefore do not have money to pay taxes. This has led to a narrow tax base.

* **Scattered tax payers** and this increases the cost of collecting the

tax revenue. Since people do not carry out business in the same area, it may involve the tax collector to move from one place to another hence increasing the cost of collecting tax.

* **Hostility of the tax payers** especially in case of unfair direct

taxes. Some tax payers are very hostile because of some taxes that may seem unfair to them. So they end up being hostile to the tax collectors.

* **A high rate of smuggling** reduces the tax base and revenue to the government sometimes the goods are smuggled into the country without paying taxes. This reduces the tax collected.
* **There is a low level of income per capita** because of poverty hence

low revenue. By 2014 the per capita income of Rwanda was 695.7. This implies that the people were earning little income therefore their ability to pay was very low.

* **High rates of corruption and embezzlement** and this reduces the revenues meant to be collected by the government.
* **Many illegal activities** which yield income but are not taxed e.g. prostitution. This also leads to low tax base to the government hence little revenue.

**b) Policies measures to improve tax collection in Rwanda**

 **(2marks x4=8marks)**

**Improvement in administrative machinery**, which will help to minimize the rates of tax evasion and avoidance hence increase tax revenue.

**Encourage income generating activities** especially in rural areas to provide opportunities for employment so as to expand the tax base. This will increase the revenue to the government.

 **Providing adequate facilities** to ease the process of tax collection e.g. transport, computers. This will reduce problems of computerized taxation and also access areas that are inaccessible.

**Tax diversity**. New taxes have to be introduced. These will help to widen the tax base and the government will be able to receive more revenue.

**Improving economic activities** like in the manufacturing sector, monetary expansion to increase investments and employment opportunities. This will also increase the revenue.

**Ensuring political stability** so as to access areas from which taxes can come. The tax collectors will be able to cover those areas without any fear hence increasing tax revenue.

**Adopting a tax payer friendly** system where the tax payers can freely pay at their time of convenience without pressure from the tax authority.

**Reduction on the grace period like tax holidays** and exemptions given to investors. This will as well increase the tax base of the country.

**Reviewing the existing tax structure**, **policies** and **programs** so

that they are in line with the required targets