MINISTRY OF EDUCATION SCHOOL YEAR: 2020-2021

Southern province TERM:III

RUHANGO District DATE:……/……/2021

PROMOTION: S6 DURATION: 3 Hours

Combination: s6 HEG, MEG, MCE, HEL, and Leg/ 100 Marks

ECONOMICS examination at district level

**INSTRUCTIONS**

This paper has **TWO** sections: **A** and **B**

**SECTION A**: Attempt **ALL** questions

**SECTION B**: Attempt any **THREE** questions

Use only a **blue** or **black** pen

**SECTION A: Answer all questions (55Marks)**

1. For each question there four possible answers: **A,B,C**, and **D.** Choose the one you consider correct and write the corresponding letter **(4marks)**
2. **Internal economies refer to:**
3. Benefits experienced by a single firm as a result of increasing its scale of production.
4. Benefits that are not shared with other firms in the industry
5. Both **A** and **B** options given above are correct
6. None of the options given are correct.
7. **What is the main role of the International monetary fund?**
8. To ensure a stable exchange rate regime and provide emergency assistance to countries facing crises in balance of payments.
9. To be a forum for trade and liberalization
10. To assist countries in development
11. To facilitate private investment around the world
12. **What is the main role of the World Bank?**
13. To be a forum for trade and liberalization
14. To assist countries in development
15. To facilitate private investment around the world
16. All of the options given are correct
17. **What is dependency theory?**
18. Economic activity in the richer countries often leads to serious economic problems in the poorer countries.
19. Economic development of poorer countries is positively dependent on economic growth of richer countries.
20. Economic growth is beneficial to all
21. None of the options given are correct.
22. Economics was defined by many economists differently. suggest which **one** is more appropriate and why? ***(5marks)***
23. **A)** The income of consumers changed by 25% but the quantity demanded of commodity Z remained constant at 46kg. Find the income elasticity of demand and state the type of the commodity. ***(3marks)***

**B)** using your knowledge about elasticity of demand, explain real life situation where elasticity of demand can be applied? ***(3marks)***

1. Given the following demand and supply functions, **Qd=36-4P** and **Qs=-12+12P**. Suppose price is fixed at **5**. State whether there is a surplus or shortage, hence determine the extent of the surplus or shortage. ***(4marks)***
2. **A)** Under perfect markets, there is basically one market situation that is known as perfect competition. With illustration explain how a firm under perfect competition will maximize abnormal profit in short-run situation. (***4marks)***

**B)** Analyze any 4 conditions necessary for price discrimination to be successful. ***(2marks)***

1. **A)** With a help of illustrations differentiate minimum wage and maximum wage***. (4marks)***

**B)** Examine argument advanced in favour of a minimum wage (***3marks)***

1. You as an economist, assess the view that Multinational corporations(**MNCs**) have done more good than harm towards the development process of Rwanda (***4marks)***
2. Barter trade system is used as the exchange of commodity for another commodity. State any 4 problems of this system? ***(2marks)***
3. **A.** Differentiate operational plans from perspective plan. (***2marks)***

**B)** Why is it necessary for your country to prepare a national development planning? ***(4marks)***

1. **A.** Differentiate leasing from divestiture as the form of privatization. ***(2marks)***

**B)** sometime selling parastatal enterprises to the private sector seems unavoidable. Why is this? . ***(4marks)***

1. A) With clear example distinguish between forward shifting in tax and backward shifting in tax. . **(3marks)**

B) Suggest any four causes of tax evasion. **(2marks)**

**SECTION B: (Attempt only 3 questions)/45Marks**

1. In Rwanda, many people are below the poverty line, meaning that they cannot have the basic needs of life or they will have them in few amount that may not satisfy their needs.

A. What do you think are the causes of such instance ***(8marks)***

B. As an economist learner, Help the government by suggesting what should be done to help people come out of such circumstances? ***(7marks)***

1. Study the table below and answer questions that follow: 

a. What type of unemployment is portrayed by the above figure? ***(2mark)***

b. What should be the causes of that type of unemployment? **(6marks**)

c. Propose possible solutions of that type of unemployment **(7marks)**

14. The prices of mangoes were very high in the dry season where very few suppliers had mangoes. The price was 2000rwf per basket. The supplier therefore opted to supply more mangoes the following season. However, the supply was high and the price fell to 800rwf per basket. The supplier being disappointed, they decide to supply less next season and the price again rose due to less supply against the high demand for mangoes to a tune of 3000rwf per basket. With the price increase, suppliers again supplied more mangoes the next season which reduced the price to 1500rwf per basket.

i. What do you think is (are) the cause (s) of the above situation? ***(10marks)***

ii. Suggest five solutions to the above problem ***(5marks)***

15. a) What is fiscal policy? Give the starting and ending dates of fiscal year in Rwanda. ***(3marks)***

b) Explain any FOUR instruments of fiscal policy in an economy. ***(2marks)***

c) Fiscal policy and monetary policy have different means but they have the same ends; Discuss***10mark***

16. The workers in Rwanda who are under the teaching profession, basing on the problems they encounter during their activities, decided to formulate a group that could help them to iron out their problems. Indeed, the group that they formed has done a lot in assisting them have increase in wages, good working conditions among others. This prompted other workers of different profession to follow suit. Despite the success, the above groups have had many problems in attempt to fulfil their cause. Discuss the following questions:

a. What name is given to the group formed by teachers mentioned in this activity? ***(3marks)*** b. How has the group formed above benefited the members? **(5marks)**

c. What challenges has the group encountered in its attempt to fulfil its objectives? ***(7marks)***

***SUCCESS TO YOU ALL!!!***

“Keep fighting against Corona-Virus by washing your hands, wearing mask Properly and not forgetting social distancing’’.

MARKING GUIDE OF ECONOMICS EXAMINATION 3rd TERM S6

1. I)C, ii)A, iii)B, iv) A (1mark for each)
2. Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. According to Lionel Robbins. Many economists consider Robbins’ definition the most appropriate. (2marks)

This is because: (3marks)

• It gives the fundamental causes of the economic problems such as unlimited human needs, limited means to satisfy man’s needs, the alternative uses for the resources and the different importance of wants.

• Robbins’ definition emphasises scarcity as a foundation of Economics, otherwise without scarcity, there would be no Economics.

• Man’s problem is not accumulating wealth, but satisfaction of human needs.

1. A) %change in income=25%

Qd1=46kg

Qd2=46kg

%change in Qd= [(46-46)/46]\*100=0%

**YED**=%change in Qd/%change in income=**0% /25% =0 (2marks)**

**Because Yed= 0, implies that commodity is necessity. (1mark)**

B) answer **(3x1mark)**

**1. to the producers**: PED helps the producers to make decision on whether to increase or decrease price.

e.g: -Elastic demand: TR would increase if the price is reduced because Quantity demanded would increase.

-Inelastic demand: TR would increase when price is increased, since Quantity demanded would remain more

2. **For Devaluation**: by increasing exports and reducing imports, it is successful only when demand for imports and exports is elastic.

3. **By Taxation**: commodities with inelastic demand should be taxed more because it would affect their consumption

4. **It is important to monopolist**: when selling by price discrimination

5. **It helps the Government to determine commodities** needed by people, which it should control.

1. **Solution**

At equiliblium, Demand=supply (Qd=Qs)

36-4p=-12+12p Solving for P, 16p=48, p=3, **Pe=3 (1mark)**

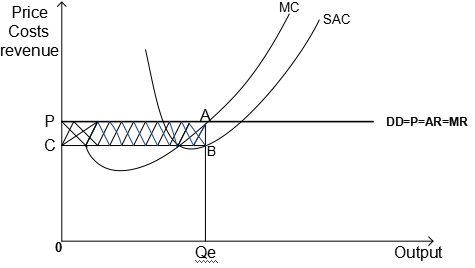
By substitution, 36-4(3)=-12+12(3)=24, **Qe=24 (1mark)**

If price is fixed at 5, this price is higher than the equilibrium price

Qd=36-4p=36-4(5)=16 **(0.5mark)** Qs=-12+12p =-12+12(5)=48 **(0.5mark)**

There is a surplus of the extent=48-16=**32 (1mark**)

1. **Graphical illustration (2marks)**



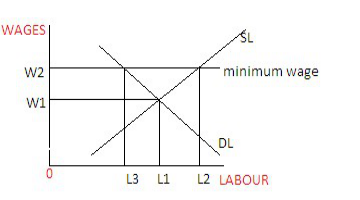
From the graph, **equilibrium** is attained at point **A** where **MC=MR** at point **A**, output **OQe** is produced at a cost price **0C** determined at point **B** where the output line meets the average costs curve. The same output is sold at a price 0P determined at point A where the output line meets the average revenue curve.

Profits =total revenue **(TR)-**total costs **(TC),**  Total costs**= OQeBC**, Total revenue =**0QeAP**,

Profits =**OQeAP-0QeBC=ABCP (shaded area) (2marks for interpretation)**

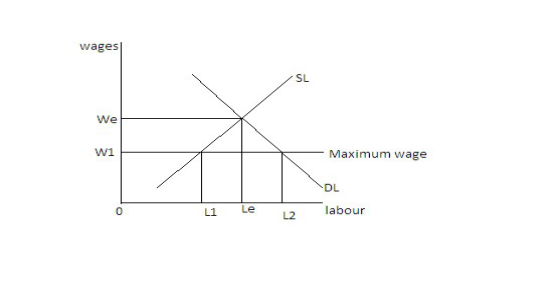
**b)** Price discrimination is possible under the following conditions: **(2marks)**

* The commodity must be sold by a monopolist
* The elasticity of demand must be different in different markets
* The transport costs must be low
* Buyers should not know how much it is charged on others
* It should be impossible for buyers to transfer the commodity from where the price is low to where it is high
* There should be no government intervention in terms of price control
* The price charged in each market should be higher than the marginal cost
* The producer should be able to classify his customers according to age, sex, income etc.

1. **1.Minimum wage legislation (wage floor):** This is where the government set the wages above the equilibrium wage below which the employer is not allowed to pay the workers. 

In the figure above, wage **W2**, is set by the government as the minimum wage**(2marks)**

**Maximum wage (wage ceiling):** Is where government sets wage below the equilibrium wage above which the employer is not allowed to pay to the workers



Wage **W1** is the maximum wage and the employers are not allowed to pay above it. It is set below equilibrium wage (**We**). **(2marks)**

B. **The reasons/arguments advanced in favour of a minimum wage are the following: (3marks)**

* It increases the average living standards of wages earners.
* It reduces the worker’s exploitation by the employers especially during unemployment periods when too many people compete for the few jobs.
* It creates incentives to workers which in turn increases efficiency.
* It stimulates consumption, by putting more money in the hand of low income people who spend their entire incomes have high marginal propensity to consume (MPC).
* It stimulates economic growth by discouraging labour intensive industries there by encouraging investment in capital and training.
* Minimum wage reduces instabilities in the labour market in form of industrial labour strike at the place of work.
* This encourages the inflow of expatriates and discourages brain drain.

1. **Positive effects (4\*1mark)**
   * + MNCs bridge the forex gap in LDCs by increasing forex inflow.
     + They increase employment opportunities for citizens of the host countries since they operate on large scales.
     + They close the investment gap through forex investment abroad.
     + They lead to improvement in domestic technology through transfer of superior technology to LDCs based on research and development.
     + MNCs produce more output especially processed or manufactured which increase exportation of manufactured goods hence more forex to LDCs.
     + MNCs promote capital accumulation in LDCs through transfer of capital and building infrastructure.
     + MNCs produce better quality products which help to improve standards of living of people in the society.
     + They give revenue to the government through taxes imposed on activities of the MNCs.
     + They help to train labour in the management of basic skills and entrepreneur ability in LDCs.
     + They increase infrastructural development through construction of telecommunication etc.
2. The following are the problems of barter trade system **(4\*0.5mark)**

* Problem of portability: It was difficult to transfer certain items from one place to another.
* Limited production: Large scale production was limited since demand for goods was never certain.
* In the barter system, it was difficult to divide and sub-divide goods. Possibility of exchanging one’s good for only one good not for two or more.
* The value of the goods could not be distributed equally as there was no measure during that period.
* Perishable goods could not serve as wealth for their future expenses.
* Absence or difficulty of double coincidence of wants
* Difficult to measure of value
* Problem of deferred payments

1. **A) Operational plan (short term plans):** this cover a short period of 1year example National budget (1mark)

**Perspective plan (long term plans);** they are drawn to cover a period of more than ten years. They are visionary plans focusing on the growth of the economy in the long run**. (1mark)**

**B) Need for development planning (4x1mark)**

* Utilize available resources
* To increase the rate of economic growth
* To distribute income
* To correct the defects of price mechanism
* To finance large and risky projects
* To reduce unemployment problems
* To mobilize international resources (from IMF, WB…)
* To balance regional growth
* To correct market imperfections
* To solve BOP problems
* Ensuring price stability
* It is a means of soliciting for foreign aid
* Planning enables the government to invest in large and risky projects where private individuals may not invest because of inadequate capital and fear to take risks.
* Development planning is necessary to break down the vicious cycle of poverty for example the use of poverty action plan, poverty eradication action plan.

1. **A) Leasing(renting**): this where the government retains ownership of assets but rents or leases out public enterprises to the private sector. Eg: collection of market dues, land in the city. **(1mark)**

**Divestiture(de-nationalisation):** The government sells off all its interests and shares in a corporation to private investors. **(1mark)**

B) **Reasons for privatisation (rationale):** **(4\*1mark)**

• To enable firms, operate more efficiently.

• To reduce corruption tendencies in the public sector.

• To attract foreign investments in the economy without fear of nationalisation.

• To reduce government expenditure on public sector enterprises.

• Fulfilment of the international monetary fund conditionality of a private sector led economy.

• To create more job opportunities in the long run when the private sector expands it enterprises.

• To improve resource utilisation through efficiency of the private sector and the profit motive.

1. **(a)** **Forward shifting**: Here the tax payer shifts the burden/ liability to the next party in the chain of distribution inform of high prices **e.g**. ***producer shifts it to the consumer by charging him or her high prices.***

**Backward shifting**: Here the tax payer shifts the liability/ burden to the previous party in the chain of distribution. **E.g.** ***producer to the raw material provider in form of paying low prices for the raw materials***.

**Note**: **(1mark for definition and 0.5mark for the example)**

**(b) REASONS FOR TAX EVASION** **(4\*0.5mark)**

1. **Discontent with the services provided**. Sometimes the people are not contented with the services that are offered to them after paying tax so they decide not to pay anymore.
2. **Lack of adequate information about taxes**. Some people lack information about the taxes they are supposed to pay so they end up not paying the tax.
3. **Low income levels**. Some people have got very low incomes such that if they pay a tax, they may not be able to sustain their wellbeing so they decide to evade taxes.
4. **Desire to retain all earnings**. After making the profits, some people may desire to retain or take all the profits for their own benefit so they decide to evade the profits.
5. **Loopholes in the tax system not to follow up the people who evade taxes**. Sometimes there may be loopholes in the tax system such that they are not able to follow up those who evade the taxes so they also keep on doing the same.
6. **Opposition by the political leaders**. Some oppositional leaders encourage local people not to pay tax in order to win their support.

SECTION B

1. A**) Causes of poverty (8\*1mark)**

• High cost of education

• Large family size

• Lack of physical assets

• Epidemics and pandemics

• Low agricultural productivity and poor marketing.

• High cost of social services

• Markets and macro-economic instability

• Disability: People with disabilities are socially marginalised and neglected in some parts of the country.

• Unemployment and low wages

• Land scarcity and the legal protection of property rights

• Environmental change

• Population growth: Poverty in Rwanda is partly explained by the high population growth rate. Shortage of land and environmental

B**) Ways of reducing poverty (7\*1mark)**

• Avail credit facilities to the people which will help them to start their own businesses.

• Development of infrastructure aimed at opening up rural areas to investment and also easy movement of goods from remote areas to markets.

• Create political stability so as to boost production and employment.

• Progressive taxation of the rich so as to reduce income inequalities and subsidise the poor.

• Increase wages and set fix a higher minimum wage so as to increase people’s income, hence raising their demand.

• Subsidising the poor by giving them unemployment benefits like free education, food tickets, etc.

• Seek foreign aid to expand local production and investment so as to provide employment.

• Encouraging investment through giving incentives like tax holidays to investors.

• Increasing prices for agricultural products so as to boost production in the agricultural sector.

• Supporting the formation of cooperatives.

1. A) The type of this unemployment is **Keynesian unemployment** **(2marks)**

B) The causes of low aggregate demand are the following: **(6\*1mark)**

* high tax on personal income
* low level of income
* high level of imports
* inflation
* low level of investment
* Decrease in government expenditures
* low level of exports
* high interest rates on loans
* low level of economic infrastructures
* low population growth rate

C) the major remedy (solution) to unemployment is to increase effective aggregate demand through the use of the following policies: **(7\*1mark)**

* + - **Reducing direct tax:** When income tax are reduced consumer disposable income increases. This enables them to increases their demand for goods and services
    - **Increasing government expenditure:** As a way of stimulating consumption and production of goods and services
    - **Subsidization of consumers:** This increase the consumption of goods and services which leads to an increase of investment hence more demand for labor.
    - **Using expansionary monetary policies**: Aimed at increasing money supply for example reducing bank rate
    - **Increasing wages for labour**
    - **Encouraging private investment by providing incentives**
    - **Trade policy by encouraging exports:** This promote domestic investment hence increased demand for labour

1. A. Causes of price fluctuations of agricultural products **(5x2marks)**
   * **Perishable commodities**: They cannot be kept for long. Before harvest, supply is down. At this time, demand is greater than supply. This forces the prices to rise. After harvest, supply is high. It exceeds demand. This forces prices of commodities to fall,
   * **Long gestation periods**: There is usually a long time lag between planting season and harvesting period. Immediately after planting, supply remains very low. Because of low supply, prices are high. When harvesting season sets in, supply increases. As supply keeps increasing, prices of agricultural products keep on reducing.
   * **Difference between planned output and actual output**. Mangoes production mostly depends on natural conditions or factors. These include the amount of rainfall received, effects of pests and diseases, and changes in weather conditions. These factors affect Mangoes output either positively or negatively. As a result, farmers’ expected output may vary from what is actually harvested, depending on how favorable or unfavorable these natural conditions were.
   * **Agriculture of mangoes are practiced by many, small scale producers**. Most producers use old methods of production. Regulating output to equate it with demand is difficult. This causes fluctuations in prices.
   * **Agricultural producers in developing countries produce similar products**. They compete for the available market. Thus in case of surplus output, it may not be absorbed by the market which in turn forces selling prices to go down.
   * **Absence of effective commodity programs**. Most developing economies lack programs that can be used to regulate supply and then stabilise prices.
   * **Agricultural products (mangoes) have inelastic demand**. if the price for Mangoes reduces, the amount of mangoes eaten by an individual almost remains constant. When there is excess supply, disposing it off becomes difficult and this price is forces the price down. A reduction in supply forces the price to go up
   * **Regulating supply of mangoes through arbitrage is difficult**. This is because mangoes are bulky. Transporting them from areas of excess supply to areas of scarcity is costly

**Notes: (1mark for point and 1mark for explanation)**

**B)** The following can be done to reduce price fluctuations in agricultural sector: (5x1mark)

* **Price fixation**: This can be done by the government through maximum and minimum price legislation.
* **Improving storage systems**: Stable prices in the agricultural sector can be ensured by improving storage systems. This will help to regulate supply by storing the excess output during periods of bumper harvests. The excess will be used to stabilise prices in periods of scarcity.
* **Improve transport systems**: This facilitates the movement of commodities from areas of plenty to areas of scarcity, quickly and cheaply. This also helps to regulate supply.
* **Diversification of the agricultural sector**: This creates a variety of commodities supplied to the market. It also reduces competition among sellers especially in foreign markets.
* **Improvement in technology**: Technology reduces dependence on natural conditions. This increases the quality of output which makes it competitive.
* **Processing agricultural products**: This adds value to agricultural products and makes them competitive.
* **International commodity agreements**: These agreements can be used to stabilise prices on the international market. These help to stabilise prices of agricultural products by regulating production in the member countries.
* **Stabalisation of process**: Prices can be stabilised through establishment of farmers associations to regulate supply. These associations may help to fix quotas and regulate supply

1. A) Fiscal policy refers to the use of public finance like taxation and public expenditure to influence economic activity, stimulate economic growth and development and ensure proper exploitation and distribution of resources.

In other words, fiscal policy is the study of the use of the public finance operations to bring about economic stability and growth in the economy. **(2marks)**

The fiscal year in Rwanda start on **1st July and ends on the 30th June** (E.g: From 1st July 2021-30th June 2022 **(1mark)**

B) Fiscal policy uses various tools including**: (1\*4=4marks)**

* **Public revenue** especially taxation: Public revenue is money collected by government from different sources or income of the Government for the common good of the country. The government on behalf of its people finances common services and goods in form of education, security, health, pensions and administration of the country.
* **Public expenditure**: refers to expenses incurred by the government to finance its operations and to implement activities that benefit the society and economy as a whole. Briefly, public expenditure means those amounts of money which are spent government for different purposes.
* **Budget**. This is a financial statement (An account) outlining anticipated government receipts and payments as well as measures proposed to be taken in the forthcoming year. It is usually presented annually by the minister of finance.
* **Public borrowing**. Public debt refers to the total borrowing, both internal and external by the government which must be paid back to the lenders at future date with interest. It is what the Government owes to the holders of the treasury bills, notes, bonds and securities.

c) Fiscal policy and monetary policy have different means but the same ends, Discuss.

This statement stresses that both monetary and fiscal policy have the same/common objectives/ends, but to achieve these objectives they use different means/tools.

The following are the objectives of these policies: **(2marks)**

* To stimulate the growth of the economy.
* Redistribute income among individuals, regions and sectors of the economy.
* To achieve price stability: Maintain a low and stable inflation
* Maintenance of domestic value of money.
* Creating a broad and continuous market for government securities
* Ensuring that the government deficits are financed at a low interest rate i.e. when government expenditure exceeds government revenue. The deficits are financed by borrowing from the cheapest source.
* To encourage reasonable economic growth rate and development
* To achieve full employment of resources.
* Improvement of a country’s balance of payment position.
* To ensure a stable foreign exchange.

To achieve these objectives monetary policy uses the following tools: (1\*4=4marks)

* **Bank rate/Discount rate**: This refers to the rate of interest charged by the central bank on commercial banks when commercial banks borrow from the central bank. It is called “discount rate”. When the bank rate is increased, commercial banks would increase the rate of interest charged on loans. This reduces the demand for loans and vice versa.
* **Selective credit control**: This is when the central bank directs commercial banks to give credits to specific sectors and to seal on total domestic credits to various sectors e.g. Giving loans to priority sectors only like agriculture, entrepreneurship development, industrial development, etc this reduces the number of sectors getting loans and hence reduces money supply.
* **Open Market Operation (OMO):** This refers to the buying and selling of securities to the public by the government through the central bank. Securities include bonds and treasury bills. When the central bank sells securities, people go to commercial banks to draw money for buying securities. This reduces money available for lending in commercial banks. This reduces the money supply, aggregate demand and inflation. To increase money supply, the central bank buys securities from the public.
* **Moral suasion**: Here instead of giving directives, the central bank gives informal advice and appeal to commercial banks in conduct and lending policies. This is a form of persuasion.
* **Legal reserve requirement**: The central bank can increase or decrease the cash ratio or the reserve deposited by commercial banks in central bank or both. The increase in both reduces money supply as a result of reduction in money available for lending in commercial banks.
* **Special deposit/supplementary reserve requirement**: The central bank can instruct commercial banks to make certain deposit above the minimum legal reserve requirement. This reduces money available for lending in commercial banks and reduces the money supply.

On the other hand, the fiscal policy uses the following tools: (1\*4=4marks)

* Public revenues
* Public expenditures
* National budget
* Public debt

1. **A.** The group formed by teachers is called **trade union (3marks)**

**B.** the group formed above has benefited the members in the following ways: **(5\*1mark)**

* A rise in the cost of living: Trade unions demand higher wages because of an increase in the cost of living. This is because a rise in the cost of living reduces the real wage of the trade union members.
* Comparative wage rates argument: This is based on the idea that people doing similar jobs should get more-or-less similar rewards. For instance, a teacher of Ecole de science de Byimana should get almost the same salary as the one of GS notre dame de lourde Byimana. Hence different institutions have tried to increase the wages basing on that argument.
* The increased profit argument: The increased profits in the industry justify a higher return to labour.
* The productivity argument: Trade unions demand higher wages if productivity increases.
* Trade unions have also played a big role in improving the standards and working conditions of the people through advocating for fair treatment at their areas of work.
* Trade unions also have helped in creating and advocating for job security for the people they represent. This is through seeking for work permits for their members and this has helped to reduce fear from the people about the uncertainty of their jobs
* Incomes of low wage earners increase
* It provides an avenue through which workers come to know each other for social support when need arises.

C. **Challenges has the group encountered in its attempt to fulfil its objectives are the following:(7\*1=7marks)**

* + - **Poor leadership**: there is lack of well qualified and experienced leaders to put forward the workers’ problems and aspirations
    - **Limited capital and other financial resources**
    - **High level of unemployment**: this makes trade unions weak. Workers fear to go for strike for fear of losing their jobs
    - **Government interference** in the activity of trade unions.
    - **High level of corruption and embezzlement** of unions funds by the leaders.
    - **Temporary nature of employment**: most of workers are employed on contracts and therefore their conditions are fixed and cannot form trade unions.
    - **High level of illiteracy** among members
    - **High proportion of migrants within the work force**
    - In most developing countries, the government is the biggest employer. The government always refuses to increase wages as an anti-inflationary measure. This weakens the activities of trade unions

**END!!!!!!**