MARKING SCHEME
THE ROYAL EXAM SERIES
Kenya Certificate of Secondary Education

565/2 — BUSINESS STUDIES — Paper 2

1

a) Disadvantages of advertising to a consumer

i) the cost of advertising is passed on to the consumers through increased prices of goods/services
ii) Adverts concentrate mostly on the advantages and very little on the side effects of the products.
iii) Some adverts are misleading/misguiding to consumers e.g. beer/cigarettes adverts
iv) Some adverts leads to extra expense /unnecessary expenses/impulse buying as a consumer buys what he/she does not want.
v) Some adverts can lead to moral decay of the society/consumers

4pointsx2=8marks

b) Six problems experienced at the implementation stage of a development plan

i) Inadequate domestic resources-to support the implementation of the plan
ii) Natural calamities-resources set aside for implementation of the plan are diverted to curb the calamity.
iii) Lack of political will to support the development plan
iv) Inflation –Prices of goods and services go up hence finances set aside for implementation may not be enough
v) Over ambitious plan-Over ambitious plans become difficult to implement since are not realistic.
vi) Lack of co-operation among the executing parties e.g. treasury may not release funds for implementation of plan/some projects
vii) Failure to involve the local people in the plan formulation stage. These people may not support the development plan during implementation stage.
viii) Reliance on donor funding which may not be released in time/not released at all.

6pointsx2=12 marks

1.

a) Stock 5000 – 2000 =3000
Debtors2000 – 1000 = 1000
Cash 4000 – 1000 – 2500 =500
Premises 80,000
Capital 66,000 + 2000 = 68000
Machinery 18000
Bank -66000 + 1000 +4000 +2500 =1500
Creditors 12,000
Loan 25,000 – 1000 =24,000

NZIOKA TRADERS
BALANCE SHEET
AS AT 5TH JAN 2012

F.A	sh	sh	Liabilities	Sh	Sh
Premises	80000✓		Capital	66000✓	
Machinery	18000✓	98000	Add:net profit	2000✓	68000
C.A			L.T.L		
Stock	3000✓		5 yr loan		24000✓
Debtors	1000✓				
Bank	1500✓		C.L		
cash	500✓	6000	Creditors		12000✓
		104000			104000

10x1=10marks

b) Five measures that can be taken to curb the problem of unemployment in Kenya

i) Adopting a relevant education system that emphasizes on the skills required in the labour market
ii) Encouraging employment creation in the private sector to create more job opportunities.
iii) Adopting policies that encourage the use of labour intensive methods of production
iv) Rural development to curb rural-urban migration
v) Increasing government expenditure on projects that would create more job opportunities
vi) Diversification of economic activities incase of seasonal unemployment
vii) Population control to prevent over population that causes unemployment/make sure the population is in balance with the resources.
viii) Encourage the use of local resources in production to create more job opportunities
ix) The government should encourage more direct foreign investment to create more job opportunities
x) Encourage the use of locally made products to create market for local products
xi) Ensure that the available resources are used effectively to avoid wastage which could lead to shortage hence unemployment

5pointsx2=10 marks

2.

a) Measures a country may adopt to increase its volume of export

i) Engaging in international trade fair/exhibition to promote the home products
ii) Devaluation its own currency to make export cheap
iii) Lowering taxes on exports to make them cheap
iv) By diversifying on its exports to increase the market.
v) Offering subsidies to firms that involved in production of export goods
vi) Reducing the length /procedure for acquiring licenses for exporting products
vii) Adopting modern technology to export products to make them fashionable/High quality/more attractive to customers
viii) Offering customs drawbacks – The government refunds either in full or part of custom duty paid on imported raw materials if finished product is exported.
ix) Lobbying/Negotiate with trading partners for removal of trade restrictions placed on the country's exports

5pointsx2=10 marks

b) Measures the government has taken to reduce further loss of lives

i) Removal of unroad-worthy vehicles which may cause accidents.
ii) Installation of bumps to reduce speeds which may cause accidents
iii) Heavy penalties to motorists who disobey traffic rules.
iv) Limit number of passengers in vehicles to avoid overloading
v) Ensuring that public service vehicles have speed governors to limit the speed
vi) Making sure that passengers have safety belts to minimize casualties incase of an accident.
vii) Construction of duo carriage roads and bypass to ease congestions which may cause accidents.
viii) Making sure that public service vehicles/all vehicles are driven by qualified drivers.
ix) Restriction on travelling hours/ensure drivers have ample time to rest before driving e.g public service vehicles not allowed to travel at night.

5pointsx2=10 marks

3.

a) i) Gross profit

Margin = $\frac{G.P}{\text{Sales}}$✓

$$\frac{40}{100} = \frac{\text{G. P}}{\text{Sales (270,000)}} ✓$$

$$GP = \frac{40 \text{ x } 270{,}000}{100} = 108{,}000$$

ii) Cost of goods sold (2mks)

Cost of goods sold = Sales - G. P✓

= 270,000 - 108,000 =162,000✓

iii) Net profit (2mks)

Net profit = G. P – Expenses✓

= 108,000 – 40,000

= 68,000✓

iv) Average stock (3mks)

$$\text{ROSTO}= \frac{\text{Cost of sales}}{\text{Average stock}}✓$$

$$6 = \frac{162{,}000}{\text{Average stock}}✓$$

$$\therefore \text{Average stock} = \frac{162{,}000}{6} = 27{,}000✓$$

b) Five monetary tools that the central bank may use to curb inflation (10mks)

i) Increase the cash liquidity ratio that the commercial banks should have so as to reduce the lending rate. This reduces money supply hence controlling demand pull inflation.

ii) Increase the bank rate/ interest rates to commercial banks which in turn increase interest rates to borrowers – This discourage borrowing hence controlling demand pull inflation

iii) Sell of government securities such as treasury bills and bonds to the public. People will withdraw money from commercial banks leaving them with little for lending

iv) Increasing the commercial bank compulsory deposit with the central bank. The commercial banks will be left with little for lending

v) Give out directives to commercial banks to restrict lending so as to reduce money supply.

vi) Apply the selective credit control measures – instruct commercial banks to lend only to a few sectors.

vii) Persuade/appeal to commercial banks to restrict lending in order to reduce money supply

5pointsx2=10 marks

4.

a) Benefits enjoyed by Public Ltd Company

i) Large capital base – Public Ltd Liability Company has access to a wide source of capital through sale of shares and debentures to the public. It can also borrow loans from banks using its assets as security.

ii) Transfer of shares – Shares can be transferred freely from one person to another without any effect on the continuity or ownership of the company.

iii) Continuity – The Company will continue to exist regardless of the death, insanity or bankruptcy of the shareholders.

iv) Specialized professional management. Its wide sources of capital enable a public ltd liability company to employ qualified/skilled staff.

v) Economies of scale – its size enables the company to operate on large scale, hence reducing the costs while maximizing on profits

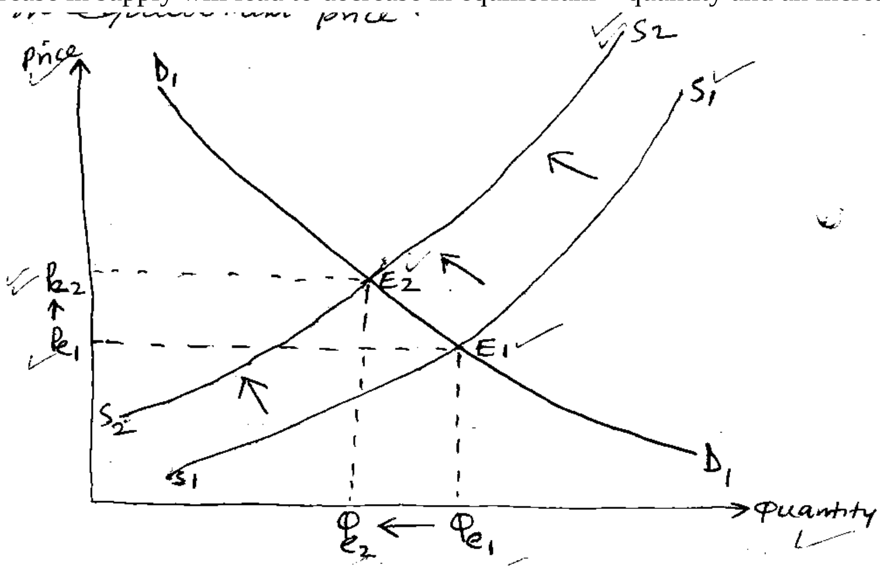
vi) Encouragement and motivation of employees to work harder for higher profits incase where the company has share schemes for its employees.

vii) Accountability – There exists transparency and accountability since it's a legal requirement for the company to publish its accounts and discuss them during AGM.

5x2=10mks

b) Effect of a decrease in supply on the equilibrium (10mks)

A decrease in supply will lead to decrease in equilibrium✓ quantity and an increase✓ in equilibrium price.



The initial supply curve✓ S_1S_1 and the demand ✓curve is D_1D_1. As a result of decrease in supply, the supply curve shifted to the left from S_1S_1 to ✓S_2S_2. As a result the equilibrium quantity decreased from Qe1✓ to Qe2 while the equilibrium price increased from Pe_1✓ to Pe_2. The equilibrium point moved from E_1 to E_2✓

20 Ticksx$^1/_2$=10 marks

5.

a) Sources of monopoly power

i) Government intervention that favours only one firm/Government creating a monopoly in an area of interest.

ii) Sole control of a certain raw materials hence deny other firms access to them

iii) Acquisitions of patent rights from the government/other firms are excluded from production/supply of the product.

iv) Internal economies of scale that makes the firm to lower its cost of production thus putting off other firms.

v) High capital required such that its only one firm can afford to raise such capital

vi) Possession of a certain technology/knowhow on production of a certain product where other firms do not have

vii) Where other firms incur extra expenses such as transport costs in order to sell in the market. The existing firm remains the only supplier in the market.

viii) Where several firms form cartels and operate as only firm

5pointsx2=10 marks

b) Five methods and legislations which the Kenyan government has put in place to protect consumers

i) Weights and measures act- The government ensures that all equipment used for measuring products are accurate.

ii) Food and drugs act- Government ensures that traders do not add harmful ingredients in the processing of their products

iii) Sale of goods act/trade description act – This legislation ensures that traders do not give wrong description of their products regarding usage or quality.

iv) Public health act – This legislation ensures that hygienic conditions are followed in the production of goods and provision of services.

v) Rent and tribunal act- This legislation ensures that landlords do not exploit their tenants by charging them unreasonable rates.

vi) Licensing- Through issuance of licenses, the government is able to know the type and nature of business activities carried out by traders (protect consumers from harmful and illegal products).

vii) Price control- Refers to a situation where the government set a price on certain product especially essential products, within which no trader can exceed.

viii) Setting standards- The government through KEBS ensures that quality standards are adhered to by producers and sellers.

ix) Consumer safety act – Ensures and prohibits traders from selling harmful products to consumers

5pointsx2=10marks