First Semester

Economics

(الاقتصاد)

(Answers)

SULTANATE OF OMAN
MINISTRY OF EDUCATION

Marking Guide of General Educational Diploma for Private Schools

2023/2024

Semester One – First session

Subject: Economics

مركز القياس والتقويم التربوي
The Center for Educational Assessment and Measurement (CEAM)

Note: There are 14 pages in this guide

First: Answers for the Multiple-Choice Items (12 Marks):

Item N.	Answer	Mark	Page(s)	Learning Outcome	Learning Level
1	B Exchange rates are determined solely by the market forces of supply and demand.	1	285	Explain how a floating exchange rate is determined	AO1
2	A Imported goods become more expensive for domestic consumers.	1	288	Discuss, using AD/AS analysis, the impact of exchange rate changes on the domestic economy's equilibrium national income and the level of real output, the price level and employment. (Depreciation and appreciation).	AO1
3	B Domestic manufacturers of steel.	1	267	Analyse the impact of the different tools of protection.	AO1
4	B A limit on the quantity of a specific product that can be imported.	1	267	Explain the different tools of protection: tariffs, import quotas, export subsidies, embargoes, voluntary export restraints, exchange control, and excessive administrative burdens ('red tape')	AO1
5	A The practice of selling goods abroad at a lower cost than their production cost.	1	269	Discuss the arguments for and against protectionism.	AO1
6	B To safeguard domestic industries and jobs.	1	269-271	Discuss the arguments for and against protectionism.	AO1

7	D To generate revenue for public services and projects.	1	226	Analyse the reasons for taxation	AO1
8	C To address a period of economic downturn or recession.	1	228-229	Explain the difference between expansionary, contractionary, and discretionary fiscal policy.	AO1
9	A Interest rates	1	234	Explain the main tools of monetary policy, including interest rates, the money supply, credit regulations	AO1
10	C The proportion of extra income taken in tax.	1	225	Explain rates of tax: marginal and average rates of taxation (MRT, ART).	AO1
11	B Paying the wages of teachers employed in state schools.	1	226	Explain the difference between current and capital government spending.	AO2
12	B Government revenues are equal to government expenditures.	1	221	Explain the difference between a government budget deficit, a government budget surplus, and government balanced budget.	AO1

Second: Answers for the Extended Answer Items (48 Marks):

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
- If the answer is clearly not relevant, and the student has clearly made no attempt to answer the question that was set, NO marks should be awarded. However, if the student has genuinely attempted the answer, but his answer is only partly relevant, then a reduced mark (not zero) should be awarded.

Item N.	Correct Answer	Mark	Page(s)	Learning Outcome	Learning Level

13	***The student can list 2 of the following:*** • Price stability: keeping the inflation rate low and stable. • Low Unemployment: Having a low proportion of the labor force unemployed. • Economic growth: the expansion of the productive potential of the economy. ***(1 mark for each) (1 * 2 =2 marks)***	2	215-216	explain a government's macroeconomic policy objective of price stability • explain a government's macroeconomic policy objective of low unemployment • explain a government's macroeconomic policy objective of economic growth.	AO 1
14	○ Direct taxes are taxes levied on income/wealth. They are progressive. ○ Indirect taxes are taxes paid on items of expenditure (taxes on spending, rather than on income. They are regressive. ***(1 mark for each) (1 * 2 =2 marks)***	2	224-225	explain the difference between indirect and direct taxes • explain the difference between progressive, regressive and	AO 3

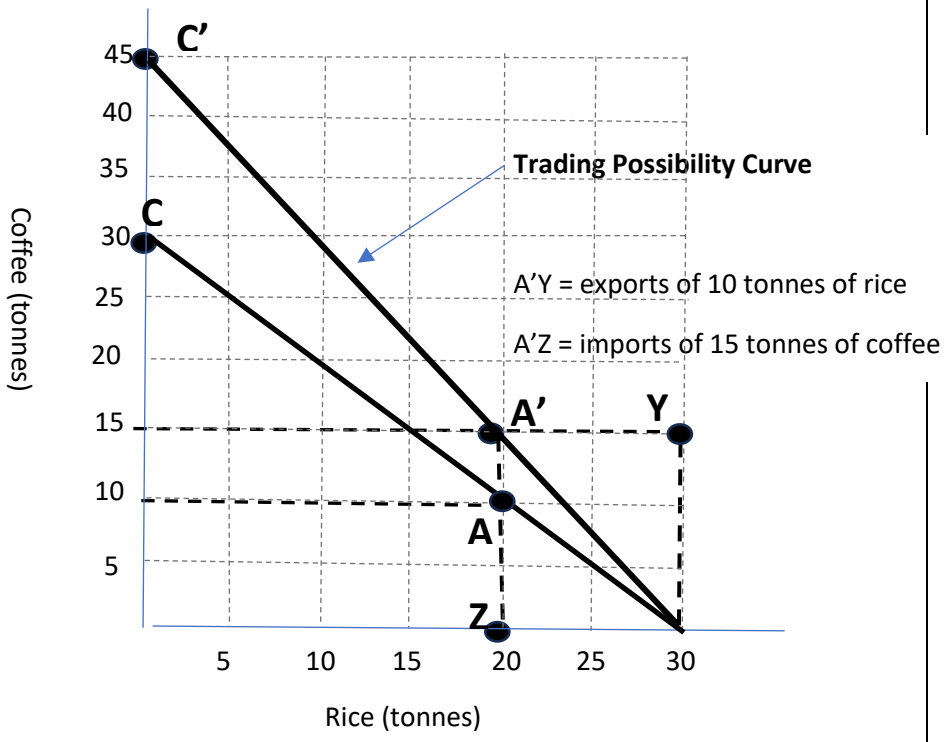
				proportional taxes	
15	A natural monopoly is a situation that arises as a consequence of large economies of scale. The largest firm operating in the market can always produce at a lower cost than any potential entrant (the monopolist has an overwhelming cost advantage). ***(2 marks)***	2	367	Explain the characteristics of the market structures in terms of the number of buyers and sellers, product differentiation, degree of freedom of entry and availability of information. Explain barriers to entry and exit (legal, market, cost, physical).	AO 3
16	According to the law of comparative advantage, a country can have an absolute disadvantage in both goods or activities, and can yet still gain from trade by specializing in the goods or activity in which it has a comparative advantage. Thus, it is the difference in comparative advantage that gives rise to the gains from specialization and trade. ***(2 marks)***	2	256-257	Explain the difference between absolute and comparative advantage. Explain the benefits of specialisation and free trade (trade liberalisation).	AO 3
17	A-. In the U.S, the opportunity cost of 300 units of wheat is 100 units of beef. Thus, the opportunity cost of 3 units of wheat is 1 unit of beef. Thus, the opportunity cost of 1 unit of wheat is 1/3 unit of beef.	2	256-257	Explain the difference between absolute and comparative	AO 2

	In Argentina, the opportunity cost of 20 units of wheat is 20 units of beef. Thus, the opportunity cost of 1 unit of wheat is 1 unit of beef. ***(1mark)*** B- Given that the opportunity cost of 1 unit of wheat is lower in the U.S, the latter has a comparative advantage in wheat. ***(1mark)*** ***(1 * 2 = 2 marks)***			advantage. Explain the benefits of specialisation and free trade (trade liberalisation).	
18	A- Balance of trade in goods and services = exports of goods and services – imports of goods and services **Balance of trade in goods and services** = $2062 million + $442 million – $4741 million -$733 million = -**$2970 million**. ***(1mark)*** B- Current account balance = Balance of trade in goods and services + balance of primary income + balance of secondary income. **Current account balance** = -$2970 million -$509 million +$2201 million = **- $1278 million** ***(1mark)*** ***(1 * 2 = 2 marks)***	2	278	Calculate the balance of trade in goods, in services and in goods and services and overall current account balance.	AO2
19	Inflation and Competitiveness: High inflation tends to erode a country's international competitiveness. As domestic prices rise, the cost of production increases, making the country's goods and services more expensive for foreign buyers. This can lead to reduced export competitiveness. ***(1 mark)*** Impact on Current Account: Reduced export competitiveness can result in a decline in exports, leading to a trade deficit within the current account. ***(1 mark)*** ***(1*2 = 2 marks)***	2	278	Analyse the causes of imbalance in the current account of the balance of payments	AO4
20	When a government borrows money, its debt increases. The national debt represents the accumulation of all the deficits and surpluses over time. If a government has a budget deficit in one year it will add to the country's national debt. ***(2 Marks)***	2	221-222	Explain the difference between a government budget deficit, a government	AO1

				budget surplus, and government balanced budget. Explain the meaning and significance of the national debt.	
21	Inflation targeting is a monetary policy framework where a central bank sets a specific inflation rate target and adjusts interest rates accordingly. ***(2 marks)*** If inflation is above the target, the central bank may raise interest rates to reduce spending and curb inflation. Conversely, if inflation is below the target, lowering interest rates can stimulate spending and boost inflation. ***(2 marks)*** ***(2 * 2 = 4 marks)***	4	236	explain the main tools of monetary policy, including interest rates, the money supply, credit regulations	AO 1, AO 3
22	**Supply-side policies** aim to enhance the long-term productive capacity of an economy by focusing on factors such as productivity, efficiency, and incentives for businesses and individuals**.** ***(1 mark)*** **Fiscal policy**, on the other hand, primarily influences short-term demand and economic activity through changes in government spending and taxation. ***(1 mark)*** ***(1 * 2 = 2 marks)*** Examples of supply-side policy include **(the student may choose 2 tools of the following, 1 mark each**) ***(1*2 = 2 marks)*** **Education and Training**: Enhance skills, knowledge through investments, improving workforce productivity, innovation, and global competitiveness. **Infrastructure Development**: Build efficient transport, energy, and communication systems, attracting investment, increasing productivity, and spurring growth. **R&D Support**: Invest in research and innovation, stimulating technology advancements, new products, and economic growth.	4	243-244	define the meaning of supply-side policy in terms of its effects on LRAS curves • explain the objectives of supply-side policy (to increase productivity and productive capacity) • analyse the tools of supply-side policy, including training, infrastructure	AO 1, AO 3

	Subsidies: Financial incentives to sectors, promoting growth, employment, and market expansion. **Labor Market Flexibility**: Reduce regulations and adaptability barriers, boost job creation, efficient labor use, and economic growth. **Tax System Reforms**: Simplify, incentivize investment and work, improving economic growth, competitiveness, and revenue collection. **Privatization and Deregulation**: Transfer state assets, remove market restrictions, encourage competition, and improve efficiency. **Trade Unions Reform**: Improve labor market dynamics and cooperation, fostering productivity, job creation, and economic stability. **Encouragement of Immigration**: Attract skilled labor and diverse talent to bolster economic productivity, innovation, and workforce expansion. ***(2 * 2 = 4 marks)***			developmen t and support for technologic advanceme nt.	
23	**(i)** If Indonesia specializes in rice, it can produce 30 tonnes of rice. ***(1 mark)*** **(ii)** Given that Indonesia consumes 20 tonnes of rice, the country can export 10 tonnes of rice (10=30-20) ***(1 mark)*** **(iii)** 1 tonne of rice can be exchanged for 1.5 tonnes of coffee. Thus, if the country exports 10 tonnes of rices, it can import 15 tonnes of coffee in exchange. ***(1 mark)***	4	258	Explain the benefits of specialisat ion and free trade (trade liberalisati on), including the trading possibility curve.	A O 2

(iv) ***(1 mark)***

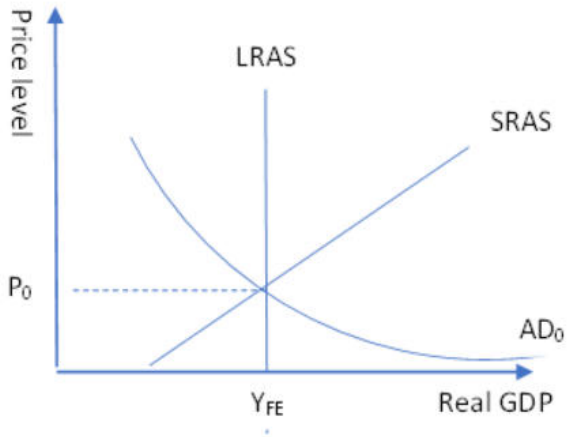
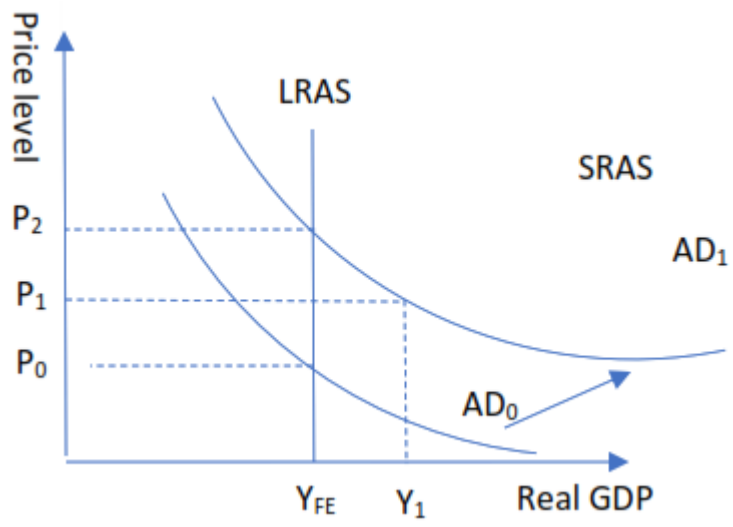


(1 * 4 = 4 marks)

24	i- Without the tariff, domestic supply is 35 and domestic demand is 84. Thus, imports = 84-35 = 49 ***(1.5 mark)*** ii- With the tariff, domestic supply is 46 and domestic demand is 70. Thus, imports = 70-46 = 24 ***(1.5 mark)*** iii- The reduction in the volume of trade resulting from the tariff = 24 – 49 = -25 (***1 mark)*** ***(1.5 + 1.5 + 1 = 4 marks)***	4	267	Analyse the impact of the different tools of protection.	AO 2

25	A-. The terms of trade (ToT) are calculated as: Index of export prices/index of import prices x 100 ***(0.5 mark)*** ToT in Jan 2019 = 107.55/119.32 = 0.90135 x 100 = 90.14 ***(0.5 mark)*** ToT in Jan 2020 = 105.82/119.91 = 0.88249 x 100 = 88.25 ***(0.5 mark)*** The ToT of the Philippines have deteriorated, as ToT 2020 < ToT 2019 (***0.5 mark)*** ***(0.5 marks for each correct answer)*** ***(0.5 * 4 = 2 mark)*** B- The deterioration of the ToT could be unfavourable for the Philippines, because it means that a larger volume of exports must be sold in Jan 2020 in order to finance the same amount of imported goods and services as in Jan 2019. ***(2 marks)*** ***(2+2 = 4 marks)***	4	259	Explain how the terms of trade are measured. 5. Analyse the causes and impact of changes in the terms of trade	AO 2 – AO 4

26	A- Perfect competition ***(1 mark)*** B- Under perfect competition, MR=AR=market price = $25 ***(1 mark)*** C- The shutdown price is where the market price is equal to the minimum AVC = $20. ***(1 mark)*** D- **(i)** A perfectly competitive firm maximizes its profit by producing where its MR=MC. MR=AR=P=$25. The level of output that maximizes the firm's profit is 12 thousand units. ***(2 marks)*** **(ii)** The ATC of producing 12 thousand units is equal to $32 which is higher than its AR equal to $25 (ATC > AR). As a consequence, the firm is making a loss. ***(1 mark)*** ***(1 + 1 + 1 + 2 + 1 = 6 marks)***	6	359-361	How to identify the type of market structure; Explain the characteristics of the market structures in terms of the number of buyers and sellers, product differentiation, degree of freedom of entry and availability of information.	AO 2

27	***Answer:*** **A-**  ***(1mark)*** **B-**The increase in aggregate demand (AD) shifts the AD curve to the right. As a result: Real GDP (Y) increases beyond the full-employment level (Yfe) to become Y1. The price level (P) rises (to P1) due to increased demand and potential shortages in the economy. ***(2marks)***  ***C-****The central bank can use contractionary monetary policy to combat inflation and return the economy to full employment. This includes* ***(the student can list any of the following tools****) for example:*	6	**238**	explain the main tools of monetary policy, including interest rates, the money supply, credit regulations • explain the difference between expansionary and contractionary monetary policy • discuss, using AD/AS analysis, the impact of expansionary and contractionary monetary policy on equilibrium level of national income,	(AO1, AO2, AO3, AO4)

	Increasing the policy interest rate When the central bank raises the interest rate, it makes borrowing more expensive, leading to decreased consumer and business spending. Aggregate demand falls, and as a result the price level decreases steering the economy back towards full- employment **OR,** **Reducing the money supply** Reducing the money supply reduces the amount of money available for lending and spending. Aggregate demand falls, and as a result the price level decreases steering the economy back towards full-employment **OR,** **Implementing reserve requirement increases.** Increasing reserve requirements for banks encourages them to hold more reserves, reducing their ability to lend. Aggregate demand falls, and as a result the price level decreases steering the economy back towards full- employment. ***(3 mark)***				

The End of the Marking Guide

SULTANATE OF OMAN
MINISTRY OF EDUCATION

Marking Guide of General Educational Diploma for Private Schools

2023/2024

Semester One – Second Session

Subject: Economics

مركز القياس والتقويم التربوي
Center for Educational Assessment and Measurement (CEAM)

Note: There are 9 pages in this guide

First: Answers for the Multiple-Choice Items (12 Marks):

Item N.	Answer	Mark	Page(s)	Learning Outcome	Learning Level
1	A Operating costs for state-financed services.	1	226	Explain the difference between current and capital government spending	AO1
2	D Both frictional and structural unemployment.	1	245	Discuss, using AD/AS analysis, the impact of supply-side policy on the employment.	AO1
3	D Price elasticity of demand.	1	223	Explain the difference between indirect and direct taxes	AO2
4	B It increases.	1	222	Explain the difference between a government budget deficit, government budget surplus, and government balanced budget.	AO1
5	C Reduce its spending and/or increase taxes.	1	228	Explain the difference between expansionary and contractionary fiscal policy	AO1
6	A Changes in the size of the labor force.	1	216	Explain Government macroeconomic policy objectives	AO1

7	C To illustrate the potential consumption choices under free trade.	1	258	Explain the benefits of specialization and free trade (trade liberalization), including the trading possibility curve.	AO1
8	A An increase in the demand for exports.	1	259	Analyse the causes and impact of changes in the terms of trade	AO1
9	C Income earned from investments abroad.	1	277	Explain the components of the current account of the balance of payments	AO1
10	A High transport costs.	1	260	Discuss the limitations of the theories of absolute and comparative advantage	AO1
11	A Excessive administrative burdens.	1	268	Explain the different tools of protection: excessive administrative burdens (‘red tape’)	AO1
12	D The relative strength of the demand for and the supply of the currency.	1	285-286	Explain how a floating exchange rate is determined	AO1

Second: Answers for the Extended Answer Items (48 Marks):

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
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Item N.	Correct Answer	Mark	Page(s)	Learning Outcome	Learning - Level

13	Progressive tax—A tax that takes a larger percentage of income from high-income groups than from low-income groups. ***(1 mark)*** Regressive tax—A tax that takes a larger percentage of income from low-income groups than from high-income groups. ***(1 mark)***	2	225	Explain the difference between progressive, regressive and proportional taxes	AO 3
14	Government spending is linked with the reasons for taxation. Government spends in order to influence aggregated demand and the level of economic activity Government spends to increase aggregate supply, spends on transfer payments, spends on merit and public goods, provision of goods and services, social welfare programs (health, education, unemployment benefits, social security, redistribution of wealth. ***(Any one reason are correct, for each 1 mark, 1 * 2 =2 marks)***	2	227	Explain the reasons for governmen t spending	AO 1
15	Many countries use the monetary policy to reduce demand-pull inflation by focusing on interest rates. When a country sets a target inflation rate, changes in interest rates are used by the central bank to achieve it. For instance, if the inflation rate is outside its target range, a central bank is likely to raise the rate of interest to reduce the aggregate demand.	2	236	Discuss AD/AS analysis of the impact of	AO 3

	(2 marks)			expansionary and contractionary monetary policy on the equilibrium national income and the level of real output, the price level and employment.	
16	Absolute advantage is the ability of the country to produce a good more efficiently (e.g. with less labor) Comparative advantage is the ability of the country to produce a good relatively more efficiently (e.g. at lower opportunity cost). ***(2 marks)***	2	255	Explain the difference between absolute and comparative advantage	AO 1
17	Quotas are limits on imports. Quotas have disadvantages for consumers as they result in them paying higher prices and consuming fewer products. ***(2 marks)***	2	267	Explain the different tools of protection: tariffs	AO 1 , AO 3

18	The balance of payment of a country consists of current account, capital account, and financial account. ***(1 mark for the components)*** Current account is a record of a country's economic transactions with the rest of the world over a year. Capital account is a record of the sale and purchase of copyrights, patents, trademarks, and money brought into the country by immigrants and taken out by emigrants and expatriates. Financial account is a record of the transfer of financial and capital assets between the country and the rest of the world. ***(Any two definition are correct, 0.5 mark for each definition, 0.5 * 2 = 1 mark)*** ***(2 marks)***	2	276	Explain the components of the balance of payments	A O1
19	A government may impose trade restrictions in order to improve its current account position. For instance, imposing tariffs may encourage consumers to switch from buying imports to buying domestic products. ***(2 marks)***	2	270	Discuss the arguments for and against protectionism.	A O1, A O3
20	A natural monopoly is a monopoly that arises in an industry in which there are such substantial economics of scale that only one firm is viable. ***(1 mark)*** An Oligopoly is a market structure with only a few firms and high barriers to entry. ***(1 mark)*** ***(1 mark for each term, 1 * 2 =2 marks)***	2	355	Explain the characteristics of the market structures.	A O3
21	a. The marginal rate of taxation is the proportion of extra income taken in tax and the average rate of taxation is the proportion of a person's total income that is taken in tax. ***(2 mark)*** b. The marginal rate of taxation =$20/$1000=0.02 or 2%. ***(1 mark)*** c. The average rate of taxation =$20,000/$80,000=0.25 or 25%. ***(1 mark)*** ***(2 * (1 * 1) = 4 marks)***	4	225	Explain rates of tax: marginal and average rates of taxation	A O3, A O2, A O2

				(mrt, art) of taxation (mrt, art)	
22	a. It seeks to increase productivity capacity and hence shift the economy long run supply curve to the right. ***(1 mark)*** b. Infrastructure development represented by efficient transport and communication networks and other types of infrastructure are all needed by firms which enables the markets to operate effectively. By investing in infrastructure, it improves the future productive efficiency which results in shifting the long run aggregate supply to the right. ***(1 mark)*** **c.** Cutting income taxes may encourage workers to increase their working hours and accept promotion and greater responsibilities. ***(2 marks)*** ***(2 * (1 * 1) = 4 marks)***	4	243-244	Analyse the tools of supply-side policy, including training, infrastructure development and support for technological improvement	A O1 , A O3 , A O4
23	a. Current account deficit of the balance of payment is the value of debt items on the current account exceeding the value of credit items. ***(1 mark)*** Current account surplus of the balance of payment is the value of credit items on the current account exceeding the value of debit items. ***(1 mark)*** b. A growing domestic economy, Declining economic activity, Structural problems. ***(Student can explain any two of the causes, 1 mark each, 1 * 2 = 2 marks)*** ***(2 * 2 = 4 marks)***	4	277-278	Analyse the causes of imbalance in the current account of the balance of payments	A O3 , A O3
24	a. A fall in the value of a currency will cause a reduction in the export prices in terms of foreign currencies and a rise in import prices in terms of the domestic currency ***(1 mark)*** b. A rise in the value of the currency will make exports more expensive in terms of foreign currencies and imports cheaper in terms of domestic currency. ***(1 mark)***	4	285-286	Explain the difference between depreciation and appreciation of a floating	AO 3, AO 3, AO 1

	c. Relative inflation rates, the trade balance, net investment in the domestic economy, speculation, and relative interest rates and monetary policy. ***(any 4 factors, 0.5 mark each, 0.5 * 4 =2 marks)*** ***(2 * (1 * 1) = 4 marks)***			exchange rate	
25	i. Oman balance of trade in goods= the value of exports of goods-value of imports of goods=$3670-$5620= $ -1950 ii. Oman balance of trade in services= the value of exports of services-value of imports of services=$900-$400=$ 500 iii. Oman balance of trade in goods and services= balance of trade in goods + balance of trade in services=$ -1950+$ 500= $ -1450 iv. Oman current account of balance= balance of trade in goods and services+ Balance of primary income+ Balance of secondary income = ($ -1450+300+150) = $ -1000 ***(1 mark each correct answer, 1 * 4 = 4 marks)***	4	278	Calculate the balance of trade in goods, in services and in goods and services and overall current account balance	AO 2 ,AO2 , AO 2, AO 2
26	a. Rising inflation outside its target range and the Oman currency is pegged to the US Dollar. Hence CBO increased the interest rates. b. Contractionary monetary policy. c. The CBO has cautioned banks not to increase the cost of borrowing to consumers given ample liquidity in the system. ***(2 mark each correct answer, 2 * 3 = 6 marks)***	6	235-237	Explain the tools of monetary policy Discuss the difference between the expansionary and contractionary	AO 4 - AO 2- AO 4

				monetary policy.	
27	i. The above figure represents the equilibrium in the long run. Because in the long run the profit is zero for the firm's work in the monopolistic competition market. ***(2 marks)*** ii. The output level Q represents the maximum profit for this producer ***(0.5 mark)*** Because at this level the MR = MC ***(0.5 mark)*** iii. The firm will make a normal profit. ***(1 mark)*** iv. The firms would need to operate under minimum average cost and the price to be set equal to marginal cost. ***(1 mark)*** v. Price competition is a strategy whereby the firms compete by advertising to encourage brand loyalty or quality or design rather than price. ***(1 mark)***	6	**360 - 363**	Discuss different market structures	AO 2, AO 2, AO 3, AO 2, AO 1

General Education Diploma for Private Schools

Economics

First Semester

First Session

2022/2023

Marks Scheme

Answers One: Multiple Choice [6 Marks]

Item	1	2	3	4	5	6
Answers	A	A	C	A	B	C

Answers Two: Filling the Gaps [6 Marks]

Item	Answers
7	Predatory pricing
8	Sunk costs
9	Infant
10	Dumping
11	Progressive tax
12	Automatic stabilizers

Answers THREE: Extended Response [48 Marks]

13. **(4 marks)**

(1) Indirect taxes are easy to administer – cheaper to collect than direct taxes because firms do part of the administrative work.

(2) They can be changed, if needed, relatively quickly and easily.

(3) They can also be used to discourage the purchase of particular products – sin tax; and above all.

(4) The main advantage of indirect taxes is that they do not discourage production efforts, innovation and savings.

14. **(4 marks)**

(1) Indirect taxes means consumers' income is taxed twice, once as (direct) income tax and the second time when consumers purchase a commodity.

(2) greater reliance on indirect taxes mightmake income less evenly distributed.

(3) it is because indirect taxes are considered as regressive taxes affecting low-income groups larger than higher-income groups.

(4) Indirect taxes can also be inflationary and push price levels up.

15. **(4 marks)**

(1) No

(2) A country can never have a comparative advantage in all products, no matter how productive it is in general

(3) The Comparative advantage has to do with the relative price a country can produce one good or another in autarky versus the cost at which they can trade those goods with other economies; and

(4) There will always be goods that are cheaper to produce in another country than at home, relative to the opportunity cost of not producing goods in which the country has a comparative advantage.

16. **(4 marks)**

(a) The current account deficit implies the value of debit items (e.g., imports) exceeds the value of credit items (e.g., exports).

(b) Since 2014, there has been a significant fall in international oil prices, causing a fall in country's export revenues greater reliance on indirect taxes may make income less evenly distributed.

(c) From 2000 till 2014 (except 2009).

(d) A declining import, increasing export, and structural advantages.

17. **(4 marks)**

(1) A budget surplus occurs if tax revenues exceed outlays
(2) a budget deficit occurs if tax revenues are less than outlays
(3) a balanced budget occurs if tax revenues equal outlays.
(4) Currently, the United States is running a budget deficit.

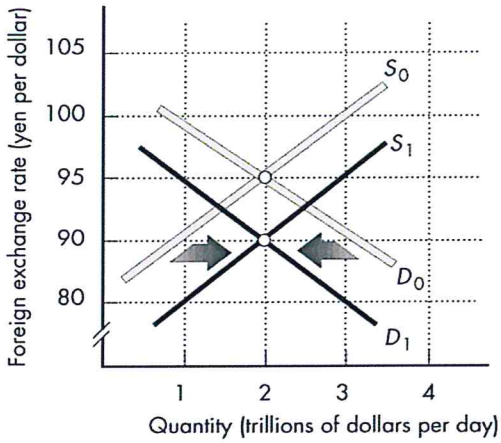
18. **(4marks)**

a) Domestic consumption is 8 million units per year, and domestic production is 0.

b)The quantity imported is 8 million units per year.

19. **(4 marks)**

a)



b)

-The fall in the expected future exchange rate decreases the demand for dollars and increases the supply.

-The demand curve shifts leftward, and the supply curve shifts rightward. As shown in the figure, the exchange rate falls, so the dollar depreciates.

20. **(4 marks)**

A) In industries with high capital costs (high fixed cost), such as the energy sector (e.g., oil industry, electricity generation, power network, aircraft/car manufacturing, or pharmaceutical sector), it is not easy for every entrepreneur to enter the market. Such industries are subject to "economies of scale". Significant barriers to entering such industries are cost-related. Hence, they are known as "cost barriers". Existing large firms can produce at a lower average cost than those just starting up.

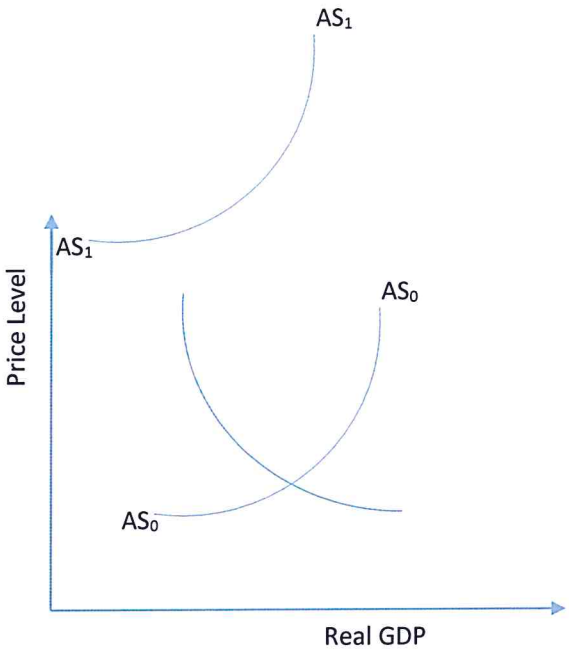
B) This may lead to predatory pricing behaviour of existing large firms and prevent any new firm that enters the industry.

C) It may be possible for existing firms to hide the existence of supernormal profit by limiting pricing. It may be in the firms' interest to collude and form a monopoly front against any new entries. For example, OPEC's behaviour has been like collusion between some oil-producing countries to limit other countries from penetrating the oil market.

D) Unless new entrants have original ideas or can exploit a new market segment, they are destined to fail.

21. **(4 marks)**

a)



b)

(1) The AS shifted leftward and caused both stagnation and inflation (also known as stagflation) to occur.

(2) Expansionary monetary policy shifted A.D. to the right, reducing the unemployment rate but further contributing to inflation.

(3) Expansionary fiscal policy also shifts A.D. to the right reducing unemployment rate but further contributes to inflation.

(4) Supply-side policy will shift the AS to the right and addresses both problems. Thus, the supply-side policy will lead to a better outcome in such circumstances.

22. **(4 marks)**

No. If trade between nations is voluntary, then it is difficult to make such an argument.

23. **(4 marks)**

The four conditions are that:
a. many firms sell an identical product to many buyers.
b. there are no restrictions on entry into (or exit from) the market.
c. established firms have no advantage over new firms.
d. sellers and buyers are well-Informed about prices.

24. **(4 marks)**

a) Public services are often known as "natural monopolies", meaning that if the services are produced by one entity, average costs will be significantly lower than if many firms try to manage them.

B) Such a condition justifies a formation of a monopoly.

C) However, the associated supernormal profits of the monopoly may raise social justice and fairness issues if owned by a private sector.

D) Therefore, economists justify public ownership in natural monopoly cases.

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First Semester

Second Session

2022/2023

Marks Scheme

Answers One: Multiple Choice [6 Marks]

Item	1	2	3	4	5	6
Answers	A	D	D	A	A	C

Answers Two: Filling the Gaps [6 Marks]

Item	Answers
7	fiscal policy
8	automatic stabilisers
9	Infant
10	terms of trade
11	Natural Monopoly
12	Regressive tax

General Notes

- There may be different ways of answering questions, but a basic requirement for all answers is that they are RELEVANT.
- If the answer is clearly not relevant, and the student has clearly made no attempt to answer the question that was set, NO marks should be awarded. However, if the student has genuinely attempted the answer, but his answer is only partly relevant, then a reduced mark (not zero) should be awarded.
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4 Marks	
The student answer is very clear and logically organized, with a good level of accuracy.	4
The student makes an attempt to write a relevant answer to the question, but this is not fully effective. However, the answer is mostly clear.	3
The student makes an attempt to write a relevant answer to the question, but this is only partly effective and there is a lack of accuracy in the answer.	2
A very feeble attempt to answer the question. The Answer has little relevance. The answer is unconvincing and inadequate. Weak organization of the answer makes it difficult to follow the points written. And finally, there is a noticeable lack of accuracy in the answer.	1
No attempt to answer, either completely unrelated to what is required from the question or complete nonsense.	0

Answers THREE: Extended Response [48 Marks]

13. **(4 marks)**

(1) Indirect taxes are easy to administer – cheaper to collect than direct taxes because firms do part of the administrative work.

(2) They can be changed, if needed, relatively quickly and easily.

(3) They can also be used to discourage the purchase of particular products – sin tax; and above all.

(4) The main advantage of indirect taxes is that they do not discourage production efforts, innovation and savings.

(1 Mark each, 1*4 =4 Marks)

14. **(4 marks)**

(1) Indirect taxes means consumers' income is taxed twice, once as (direct) income tax and the second time when consumers purchase a commodity.

(2) Greater reliance on indirect taxes might make income less evenly distributed.

(3) It is because indirect taxes are considered as regressive taxes affecting low-income groups more than higher-income groups.

(4) Indirect taxes can also be inflationary and push price levels up.

(2 Marks each, 2*2 =4 Marks)

15.

No **(1 mark)**

- A country can never have a comparative advantage in all products, no matter how productive it is in general

-The Comparative advantage has to do with the relative price a country can produce one good or another versus the cost at which they can trade those goods with other economies; and

-There will always be goods that are cheaper to produce in another country than at home, relative to the operating cost of not producing goods in which the country has a comparative advantage.

(3 Marks) for any one answer

16.

(1) A budget surplus occurs if tax revenues exceed outlays **(2 marks)**

(2) A budget deficit occurs if tax revenues are less than outlays **(2 marks)**

17.

a) Domestic consumption is 8 million units per year, and domestic production is 0.

(2 marks)

b) The quantity imported is 8 million units per year.

(2 marks)

18.

Absolute advantage is: a situation where, for a given set of resources, one country can produce more of a particular product than another country. **(2 marks)**

Comparative advantage is: a situation where a country can produce a product at a lower operating cost than another country. **(2 marks)**

19.

- **A floating exchange rate** is one determined by market forces. **(2 marks)**

-There are various reasons: **(2 marks)**

- purchase goods and services from the country
- invest in the country

20. **(4 marks)**

The success of expansionary fiscal policy tools in stimulating growth and reducing unemployment depends on many factors. For instance, expansionary fiscal policy may not be very effective if the households and firms are worried about the future. In this case, they may save most of any extra disposable income they receive as a result of lower taxes and higher government spending. Expansionary fiscal policy may not also be very effective when the government injects too much spending into the economy, causing demand-pull inflation.

21. **(4 marks)**

- Current spending ex.(Goods and services used to provide state- financed services)

- Capital spending ex.(infrastructure such as state schools and hospitals)

-Transfer payments ex. (Unemployment benefits- state pensions- interest payments on the national debt)

(2 Marks each, 2*2 =4 Marks)

22. **(4 marks)**

No. If trade between nations is voluntary, then it is difficult to make such an argument.

23. **(4 marks)**

The four conditions are that:

a. Many firms sell an identical product to many buyers.
b. There are no restrictions on entry into (or exit from) the market.
c. Established firms have no advantage over new firms.
d. Sellers and buyers are well-informed about prices.

(1 Mark each, 1*4 =4 Marks)

24.

A.

imports: good and services purchased from other countries. **(1 mark)**

exports: good and services sold to other countries. **(1 mark)**

Terms of trade: a numerical measure of the relationship between export and import prices. **(1 mark)**

B.

(92 / 99) * 100 = 93 **(1 mark)**