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**BUSINESS STUDIES**

**PAPER 2**

**MARKING SCHEME**

1. (a) Discuss any **five** benefits to a trader who uses cheques as a means of payment rather than paying in cash. (10 mks)

1. One cheque can be used to pay large sums of money. Paying large sums in cash would be bulky and risky.
2. Since a cheque is written, it can be used for future reference incase evidence of payment is required. Cash payment has no evidence of payment.
3. A cheque can be easily carried around (portable). Carrying cash may be tedious.
4. Use of cheques do not require much travel by trader to make payment. When using cash, the trader may need to travel.
5. Use of cheques may be more safer than using cash. A cheque even if lost/misplaced may be traced back to the person who cashed it.
6. Cheques are negotiable. A cheque can be used to pay a third party other than the person named as payee. (Any 5x2 = 10 mks)

(b) Kirinyaga county government is considering setting aside one area where all manufacturing firms will be located. Highlight any **five** merits of concentrating the firms in one area. (10 mks)

1. It will create a pool of skilled labour in the area where the firms are located.
2. It will lead to general development of the area when the firms are located especially road, electricity and water infrastructure.
3. Auxiliary services such as banking and insurance will also be established in the areas to support the firms leading to more development.
4. It will attract subsidiary firms to the area due to interdependence of firms.
5. There will be creation of employment opportunities for the surrounding population.
6. Social amenities such as schools and hospitals will be improved in the area to cater for the large population of the workers and family.
7. The firms may manage their waste products in a better way because some may use waste products from other firms as raw materials. They may also undertake waste disposal jointly.

(any 5x2 = 10 mks)

2. (a) The diagram below shows the supply curve of a certain commodity in the market. Explain any five factors that could have contributed to the shift of the supply curve from S0S0 to S1S1.

(10 mks)

S1

S1

S0

Price (shs)

S0

Quantity supplied

1. Improved/better methods of production/improved technology could have reduced the costs of production and increased production of the commodity.
2. Increase in population could have led to many people engaging in the production of the commodity especially if it’s an agricultural commodity.
3. Decrease in costs of production that would enable the producers to produce more as capital is available.
4. Favourable weather would lead to increase in production of agricultural goods.
5. Reduced taxes on factor inputs would enable producers to supply more.
6. Increased government incentives such as subsidies.

(Any 5x2 = 10 mks)

(b) Outline any five benefits to a farmer who is a member of a producer co-operative society.

(10 mks)

1. The co-operative would fetch better prices for the farmers produce.
2. The farmer would be educated and trained on better methods of production by the co-operative.
3. The farmer can obtain farm inputs on credit from the co-operative.
4. The farmer can obtain a loan from the co-operative.
5. The co-operative will provide better storage facilities for the farmers produce.
6. The farmer can easily transport his produce.

(Any 5x2 = 10 mks)

3. (a) Highlight any five circumstances under which a firm may become a monopoly. (10 mks)

1. When the government controls business and establishes public corporations, they tend to be monopolies.
2. Where a firm controls an important factor of production such as raw materials.
3. If the firm owns production rights of the product eg. Copyrights, patent rights and royalties.
4. Where the firm is the only one that affords the high initial costs of production involved.
5. Incase there are restrictive practices that force other firms out of market eg. Limit pricing where a firm sells it’s products at very low prices to drive others out of market.
6. Where firms enjoy massive internal economies of scale such that it reduces it’s costs of production to a level that others are not able to reach.
7. When a group of firms amalgamate to form one firm with the purpose of controlling raw materials market and reduce competition.

(Any 5x2 = 10 mks)

(b) Explain any five advantages of having a short channel of distributing goods. (10 mks)

1. A short channel reduces the costs incurred in distribution thus lowering the costs of the goods.
2. A short channel ensures that goods are not delayed and reach the consumers faster.
3. With a short channel, the producer will have direct contact with the customers (consumer).
4. A short channel ensures that goods reach the consumer when still fresh especially if they are perishable.
5. The producers get feedback faster.

(Any 5x2 = 10 mks)

4. (a) Discuss the role played by air transport in the growth of Kenyan economy. (10 mks)

1. Promotes development of agriculture by providing speedy transportation of eg. Horticultural products.
2. Facilitates trade as many business people use it to move in and out of the country to trade.
3. Has greatly contributed to growth of the tourism industry.
4. Growth of international airports has attracted development of support services eg duty free shops, banking, catering services etc.
5. Has created employment and investment opportunities.
6. Provides revenue to government through various taxes.
7. Used for information of urgently required supplies such as drugs and food aid.

(Any 5x2 = 10 mks)

(b) Explain any five uses of the national income statistics. (10 mks)

1. Indicates the standards of living in a country. The higher the national income the higher the standard of living.
2. Used to compare the standards of living in different countries.
3. Used to assess the performance of the economy over time.
4. Assisting the government to plan the economy eg. Comparing different sectors and assessing their needs.
5. Assist entrepreneurs and government to make investment decision.
6. It’s a tool to support requests for foreign aid.

(Any 5x2 = 10 mks)

5. (a) Discuss any five disadvantages of using newspapers as a medium of product promotion.

(10 mks)

1. Some readers just pass through and may miss some advertisements.
2. Newspapers in some cases are short-lived. May be put away quickly.
3. Quality of the adverts may be poor and unattractive.
4. Coverage is limited by the language in which the newspaper is written.
5. There is no guarantee that the advertisement being seen and read.
6. Newspapers lack selectivity, may not address needs of a particular group.

(Any 5x2 = 10 mks)

(b) Explain any five reasons why the government offers training to business people. (10 mks)

1. To inform them of the available business opportunities.
2. To expose the business people to government policies regarding businesses and various requirements.
3. To educate them on how to make use of the available resources to improve business.
4. To train them on modern ways of managing their businesses.
5. To impart proper business ethics on the business people.

(Any 5x2 = 10 mks)

6. (a) Describe the procedure to claiming compensation from an insurer incase of occurrence of the insured risk. (10 mks)

1. Reporting occurrence of the risk to the insurer or agent.
2. Filling in the official claim form giving details of the occurrence of the risk.
3. Investigation of the claim by insurer/agent.
4. Calculation of compensation/preparation of the assessment report.
5. Payment of the compensation.

(Any 2x5= 10 mks)

(Steps must follow the order above)

(b) Highlight five problems that a trader who sells goods on trade credit terms may experience.

(10 mks)

1. There is a risk of the seller losing the money owed as bad debts.
2. The goods cannot be repossessed if the buyer is unable to pay for them.
3. Where the buyer is unable to pay for the goods, the seller may incur more expenses in court to recover the money.
4. The seller would require a high amount of capital to operate.
5. Seller must maintain a volume and accurate records of debtors.

(Any 5x2 = 10 mks)