

**2081**  
**COMMERCE**  
**STAGE II**  
**March 2008**  
**Time: 2½ hours**

**THE KENYA NATIONAL EXAMINATIONS COUNCIL**

**BUSINESS EDUCATION SINGLE AND GROUP CERTIFICATE  
EXAMINATIONS**

**COMMERCE**

**STAGE II**

**2½ hours**

**INSTRUCTIONS TO CANDIDATES:**

*This paper consists of seven questions.  
Answer any five questions.  
All questions carry equal marks.*

**This paper consists of 2 printed pages**

**Candidates should check the question paper to ascertain that  
both pages are printed as indicated and no questions are missing.**

1. (a) One of the ways of controlling inflation in a country is by reducing the amount of money in circulation. Describe **six** measures that the Central Bank of Kenya can use to achieve this goal. (12 marks)
- (b) A bill of exchange and a promissory note are means of payment used in international trade. State **four** differences between them. (8 marks)
2. (a) Technology used in the production of goods and services is changing very rapidly. Explain the problems that a firm may face if it uses inappropriate technology in its production process. (10 marks)
- (b) Short term finance is relatively expensive compared to long term finance, yet business persons opt to use it. Explain **five** reasons that may account for this situation. (10 marks)
3. (a) Companies X, Y, Z and M have decided to amalgamate at the end of the year. Outline **five** reasons why these companies may have decided to take this step. (10 marks)
- (b) Highlight **five** causes of cost-push inflation. (10 marks)
4. (a) Explain **five** advantages of using hire-purchase as a source of business finance. (10 marks)
- (b) Explain **five** reasons why the design of packaging for goods destined for foreign markets is important. (10 marks)
5. (a) Outline **five** measures that the government may take to restrict monopolistic practices by business firms. (10 marks)
- (b) Country X has adopted restrictive policies in its trade with other countries. Explain **five** negative effects of such an action. (10 marks)
6. (a) An entrepreneur earns a profit as a reward on efforts made in the running of a business. Outline **five** factors that may determine the level of such profit. (10 marks)
- (b) Matata Company Limited which is based in Kenya intends to open branches in the neighbouring countries. Explain **five** reasons why the company may have decided to take this step. (10 marks)
7. (a) Explain **six** factors that may influence the capital structure of a company. (12 marks)
- (b) Describe **four** characteristics of auction sales in international trade. (8 marks)