**565/2**

**BUSINESS STUDIES**

**PAPER 2**

**JULY 2015**

**FORM 3**

**MARKING SCHEME**

1. ***a) Circumstances under which downward communication may be necessary in an organization.***
2. When training / giving instructions to junior workers to improve their performance
3. When evaluating (appraising) the performance of the junior workers.
4. When delegating duties to be done when a senior worker is away or busy.
5. When solving/addressing problems affecting the workers to avoid possible industrial action/strike.
6. When inspiring and motivating the junior workers / giving rewards to work done.

(Any 5x2=10mks)

b). ***Reasons that may have led to the change in supply of potatoes in the market.***

1. Poor climatic conditions which do not favour the production of potatoes hence decrease in supply of potatoes.
2. Increase in the cost of production limiting the ability of producers to produce more hence decrease in supply of potatoes.
3. Increase in price of a substitute product thus making producers produce more of the product with higher price hence a decrease in supply of potatoes.
4. Unfavourable government policies which do not favour production of potatoes hence decrease in supply of potatoes.
5. Exit / withdraw of firms from the industrial causing a decrease in supply of potatoes.
6. Poor methods of production resulting to reduction in potatoes produced hence a decrease in supply.
7. Future expectations of increase in price of potatoes hence the producers supply less to the market.
8. Inadequate factors of production limiting the producers’ ability to produce potatoes in large quantity hence a decrease in supply of potatoes.
9. Incidence of strikes – workers go on strike which interfere with the supply of potatoes hence a decrease in supply.
10. a) ***Benefits that may be enjoyed by country that adopts the use of pipeline in transporting petroleum products.***
11. Reduced road accidents - due to removal of tankers from the roads.
12. Reduced road damage - that would otherwise have been caused by the heavy tankers transporting oil.
13. Less traffic jam/road congestion - due to removal of tankers on the roads
14. Cheaper/cost effective - compared to road since once pipes are laid the cost of maintenance is minimal.
15. Larger capacity - pipelines can transport larger volume of oil compared to tankers.
16. Reduce loss of oil - through pilferage of oil as it is not easy to steal from the pipeline compared to tankers.
17. Sources of government revenue - since the transporting company generates income for the government.
18. Constant supplies of petroleum products since pipelines allow 24 hours operation.

 (Any 5x2=10mks)

 ***(b) Situations/circumstances that influence a firm to locate near source of raw materials***

1. If the raw materials are highly perishable in order to minimize spoilage / damage of raw materials.
2. Where constant supply for raw material is required to ensure continuous production.
3. Where raw materials are heavy / bulky to reduce cost of transportation.
4. Where competition for raw materials is high to ensure easy access of the raw materials.
5. Where government gives incentives to industries that are set near the source of such raw material.
6. Where the firm wants to reduce its cost of production to increase profit margins
7. Where firm wants to avoid the storage cost of raw materials in orders to reduce expense.
8. Where firm wants to control the quality /get quality raw materials so as to produce quality final product
9. Where the firm wants to control the quality of raw materials produced .
10. ***(a) Factors leading to the survival of small scale retailers despite competition from supermarkets***
11. *Small scale retailers are easy to start since they require small capital to start.*
12. *Small scale retailers are in close contact with their customers hence they may give credit to credit worthy customers.*
13. *Small scale retailers are able to use free or cheaper from the family members thus on operation cost.*
14. *The business is simple to start since few legal formalities are required to start and run the business.*
15. *Small scale retailers are flexible as they can easily change from one business to another.*
16. *Small scale retailers sell commodities in small quantities convenient to customers who majority of them have low income and may not afford to buy from supermarkets.*
17. *Small scale retailers have low operating cost which enables them to sell their goods at relatively lower prices than supermarkets.*
18. *Small scale retailers are in good position of taking care of the customers tastes and preference which may not be the case with supermarkets.*

***(Any 5 x 2 = 10 marks)***

***(b) Challenges that may be experienced by a country whose majority of its population is made up of elderly***

 ***people.***

1. Provides a less mobile labour force as old people may display rigidity in movement from one area to another.
2. There will be lack of the input of more energetic youth & thus society will be less progressive.
3. There will be low labour supply as the elderly people lack the energy to work.
4. They suffer loss of job opportunities because of decline in the demand for goods used by the youth.
5. Due to high levels of dependency, savings and investment are affected negatively.
6. They lack creativity and innovativeness.
7. ***(a) Explain five factors that may limit entrepreneurial practices in the country (10mks)***
8. *Lack of government support /unfavourable government policies /lack of funding /regulation* (of business activities) may discourage emergence / expansion of business ventures (*accept examples of unfavourable government policies as a mention.)*
9. *Lack of training / Education (in entrepreneurship)-* lack of skills /knowledge to undertake entrepreneurial activities / start /run business*.*
10. *Lack of Entrepreneurial culture –* cultural practices that discourage business activities /opportunities /fear of starting business.
11. *Lack of role models /*business people who may inspire /create interest in entrepreneurship/business ownership.
12. *Lack of market /loan/credit facilities* for starting /expanding a business (may facilitate entrepreneurship.
13. *Political instability /political interference* that create unfavourable environment for starting / expanding running a business.
14. *Lack of market / market information* (people venture into business) to satisfy consumers (where there is a no demand / businesses cannot produce / sell their goods /services hence no businesses can be stated or expanded.
15. *Poor infrastructure* that makes it difficult to transport goods/raw materials to the markets / inputs (N.B accept examples of -ve infrastructure as a naming.
16. *Stiff /unhealthy /unfair competition* that business owners cannot withstand /unable to copewith.
17. *Poor governance*/corruption/lack of transparency / accountability in conducting business activities which may discourage entrepreneurs.
18. *Poor of technology* that lead to the production of the poor quality/substandard goods/poor quantity goods/services.

***(b) Explain five challenges experienced by developing countries when measuring national income.***

1. Inadequate and accurate date as all productions activities may not have been recorded
2. Lack of adequate resources to finance the gathering of relevant information
3. Determining what to include and what not to include – e.g. DO IT YOURSELF SERVICES and illegal activities
4. Problem of estimating depreciation when calculating the Net National Income
5. Problem of using market prices where indirect taxes and subsidies have to be taken care of
6. Danger of double counting where there are transfer payments such as students grant or where the value of intermediate good is involved
7. Lack of qualified personnel to collect and compile the data
8. ***a)*** ***Benefits that may be enjoyed by a businessman who operates his own warehouse***.
9. *Cheaper / low cost of operation* as he/she will avoid the cost of hiring space in public ware house.
10. *Saves time* as he/she will not have to compete for attention with other hirers.
11. *The business will be able to customize the building / design* *of the ware* house to meet the right specification of his products.
12. *Full control of the warehouse* –which enables to access his/her goods / raw materials for 24hours / ensures continuous production / supply.
13. *The business will not be tied down to the long processes and procedures of receiving and issuing of goods witnessed in the public warehouse* which saves the business the cost and time of having to do this.
14. *Availability of space –* the business will have adequate space as it will not compete for storage space with other businesses.

***b). Reasons that account for the existence of monopolies in an economy.***

1. *If the firm has a secretive production technique* –this denies other firms the use of the technique/ production/ sell of the product.
2. *If the firm has control of strategic inputs/ raw materials*- this makes the firm to have sole access to inputs / raw materials used in the production of the commodity.
3. *If the venture requires large capital/investment of substantial capital* - other firms may not be able to raise the capital leaving the field to one firm.
4. *If the firm enjoys substantial/ greater economies of scale* - this enables the firm to produce at a lower cost than the other firms/thus edging out less effective firms.
5. if the firm is set up as a state monopoly/given exclusive/ legal rights of production of a particular product by the government- thus shutting out competition.
6. If the firm merge/amalgamate/combine/absorption/acquisition/buy others/ when firms join together to become the only firm/ producer/supplier (this gives them advantage due to size)/eliminate completion/ chokes competition.
7. If the market is best served by one firm economically other firms entering the market may make losses due to low sales hence the firm remains dominant
8. If the firm has patent rights/ copy rights which bars other firms from producing/ selling the product.

(Any 5x 2 =10 marks).

1. ***(a) Factors that are considered when purchasing office machines***
2. Cost – some machines are relatively affordable than others
3. Durability – buy that machine which can last for long / give longer service
4. Skills required in operating the machine – select that machine which is easy to operate.
5. Extent of use/its use – select that machine which can be used for various purposes/have more than one use.
6. Worker’s attitude/morale – buy that machine which increase workers morale to work
7. Efficiency of machine – buy the most efficient machine for efficient production
8. Running/operation cost- The machine should not be too expensive to maintain/have low running cost.

***b). Features of non-life insurance.***

i) *Premium charged is dependent on the degree of risk/ number of risks/ value of property* higher premium will be paid for risk of higher degree/number/value (and vice-versa)

ii) *It is a contract of indemnity* the owner of the insured property is compensated /restored for the loss of the property (upon the occurrence of the risk)

iii) *It is a short term contract the insurance contract* the insurance contract ends after a specific period of time usually one year/must be renewed for the policy to continue being in force.

iv) *Policy cannot be assigned* (to next of kin / to another individual) the owner of the policy cannot transfer it in case of sale /change of ownership of property.

v) *It has no surrender value*-should the insured terminate the policy before expiry of the contract, she/he is not entitled to any refund from the insurer.

 vi) *There must be an insurable interest in the property* to be insured. the insured must be in a position to suffer financial loss in the event of the risk covered happening (in order to claim compensation)

 vii) *There is a maximum limit to the amount of compensation*-this can be up to the value of the insured property in case of over insurance/ the sum insured in case of under insurance.

viii) *Policy can’t be used as collateral/security* to get loans/credits.

 ix) *Uncertainty (of the risk)* as the risk may or may not occur/ occurrence of the risk is not guaranteed.

x) *Principle of proximate cause*-for loss to be compensated it must have a direct bearing with the risk insured against.

xi*) Principle of utmost good faith/Uberrimae fides*-the insured must disclose all relevant/material facts concerning the property.

xii) *Mitigation of laws-*the insured should take measures to reduce chances of the risk occurrence. (Any 5x2=10marks)

 ***(Any 5 x 2 = 10 marks)***