INFLATION
MARKING SCHEME

1.   **2006 Q20 P1**

   (a) Increase money supply unaccompanied by proportionate increase in the output of goods and services.
   (b) Increase in government expenditure.
   (c) Abnormal speculation and hoarding goods to create artificial shortages hence raising prices of goods.
   (d) Uncontrolled increase in costs of productions.
   (e) Increase in profit margin.
   (f) Reduction in subsidy.

2.   **2007 Q16 P1**
   Consumer price index for years 2001, 2002 and 2003

Year	Consumer Price Index (CPI)
1. 2001	$^{53}/_{47} \times 100 = 112.77$
2. 2002	$^{62}/_{47} \times 100 = 131.91$
3. 2003	$^{74}/_{4} \times 100 = 157.45$

3.   **2008 Q21 P1**

   - Increase interest rate to discourage borrowings.
   - Withdraw excess cash in circulation by issuing government bonds and treasury bills.
   - Institute policies that make price of commodities steady (price control).
   - Increase taxes on income to discourage extra income earned at expense of leisure.
   - Raising liquidity ratio/cash ratio of commercial banks.
   - Use of selective credit control measures.
   - Increasing commercial banks special deposits with the central bank.
   - Restriction of imports.
   - Restricting wage increases.
   - Raising margin requirements.
   - Use of buffer stocks.
   - Stimulation of production of goods and services.
   - Appropriate regulations of printing national currency.
   - Moral persuasion by government for people to buy only what is necessary.

   (Any 4x1=4 marks)

4.   2009 Q14 P1

Steps that can be taken to minimize expenditure on petrol include:
   i)   Pooling people who are traveling to same direction
   ii)   Use of alternative sources of energy *I* footing / bicycled
   iii)   Encourage public service vehicles 'with higher carrying capacity / fuel saving engines.
   iv)   Encourage use of vehicle/ machines with a lower engine capacity / fuel saving engine.
   v)   Set maximum price legislation.
   vi)   Reduce tax on the product / subsidies. :
   vii)   Improve road networks.
   viii)   Increase taxes on complementary goods.
   ix)   Encourage machine maintenance
   x)   Swift off when not in use.

5.   2012 Q8 P1

Circumstances under which each of the following types of inflation may occur include:

   (i)   Creeping inflation
      (a)   When the general price levels rise gradually / single digit moderate
      (b)   Where the value of money tends to be stable over time/and- the effects on the, economy is not severe.

                                                        (Any 1 x 2 = 2 marks)

   (ii)   Hyper inflation

      (a)   Where the general price rise at high rate/ more than two digits.
      (b)   Where there is drastic loss in the value **of** money/ the effect on the economy is very severe/ people lose confidence in money.

                                                        (Any 1 x 2 = 2 marks)