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6899/02

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MARK SCHEME

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Question 1**(a) Identify two causes of changes in supply**

- Changes in costs of production
- Improvement in technology
- Taxes
- Subsidies
- Weather conditions
- Health of livestock and crops
- Prices of other products
- Disasters and wars
- Discoveries of new sources and depletions of commodities
- Number of Producers

[Any two points]**[2]****(b) Explain any two features of a planned economy**

- Do not produce for profit (1) instead they provide goods and services to improve the welfare of the society (1)
- Public ownership of means of production or productive resources (1) all economic resources are owned by the state (1)
- Planned production (1) there is a central planning unit or government that decided on the three fundamental economic questions (1)
- Distribution of wealth (1) according to ability and needs of the society (1)
- Prices and wages are set by the planners or government (1) not by market forces (1)

[Any two well explained points for 2 marks each]**[4]****(c) A fall in the price of a bag of onions from E60 per bag to E50 per bag leads to an increase in demand from 2000 bags per month to 2100 bags per month.****(i) Calculate the price elasticity of demand for the onions.**

$$\frac{5\%}{17\%} \quad (1) \qquad \qquad = 0.3 \quad (1)$$

[3]**(ii) Using your answer to (c) (i), explain how the concept of price elasticity of demand is of importance to the onion producers.**

Demand is inelastic (1) a rise in price (1) will lead to higher total revenue (1) or a fall in price will lead to lower total revenue(1)

[4]

(c) MZK Pty (Ltd) is a company listed in the Swaziland Stock Exchange. Do you think MZK Pty (Ltd) benefits by being listed in a Stock Exchange? Justify your answer.

Points for:

- Public company can raise more capital (1) through selling of shares (1)
- Stock Exchange can value companies' assets (1) as a basic requirement for a company to be registered (1)
- Companies can expand through take-overs and mergers (1) which allows external growth (1)
- Mobilise saving for investments (1) savings are channelled towards firms and governments which can use them to finance projects (1)
- Profit sharing through dividends and stock prices increases (1) that may result in capital gain (1).

Points against:

- Public companies have to meet strict regulations (1) to remain a member in the Stock Exchange (1)
- Price of shares vary every day (1) and factors that cause these price fluctuations are beyond the control of the Public Limited Companies or investors (1)
- Buying and selling of shares cost money (1) for the companies in the form of Broker's Commission (1)

[3 marks for, 2 marks against or vice versa, 2 marks for reasoned conclusion]

[7]

Question 2

Partnerships are owned by only two people while public limited companies are owned by the government.

(a) Explain whether the above information is correct.

The information is not correct (1) as partnerships can be between two or more to twenty people working in an organisation (1) and Public limited companies are owned by shareholders not by government (1) [3]

(b) Describe two reasons why some firms remain small in size.

- Lack of capital or finance to expand (1) small businesses find it difficult to raise funds (1)
- Fear of loss of control (1) by original owners of the business as the business expands (1)
- Offer personalised service to the local market (1) such as hair dressing which requires personal contact (1)
- Objective of the business (1) could be to serve a particular market niche (1)
- Government support (1) they are likely to receive financial help and advice (1)
- Location (1) small businesses are normally located next to their customers (1)

[Any two well described points]

[4]

(c) Firms may grow in size and in different ways. Analyse how firms may grow in size.

- Internal growth (1) involves a firm increasing the market or diversifying into other products through increasing the size of existing plants or by opening new ones (1)
- Horizontal integration (1) a merger or a takeover between two or more firms at the same stage of production and producing the same products. Can increase the scale of production and market power of the new firm, average cost tend to fall as scale of production increase (1)
- Conglomerate merger (1) occurs between firms producing different goods and services. The new firm can enjoy risk bearing economies. This means that the firm can continue in business if there is a sudden fall in the demand for one of their products because they produce different products for different markets (1)
- Vertical integration (1) occurs between firms at different stages of production. This guarantees the supply of raw materials. A car manufacturer can integrate with a tyre manufacturer and a car retailer (1)
- Lateral integration (1) when firms producing different products at the same stage of production merge (1)

[2 marks for internal growth and 4 marks for external growth] [6]

(d) Would you advise owners of a partnership business to change into a public limited company? Support your answer.

Responses can take one of the following dimensions:

- Points for Public limited companies and Against Public Limited companies
or
- Points for Partnerships and Against Partnerships
or
- Points for Public Limited companies and Against Partnerships
or
- Points for Partnerships and Against Public Limited companies

EXAMPLE

Points for public limited company

- More capital (1) as capital could be raised through the issue of shares (1)
- Limited liability (1) the debts of the company are only limited to the capital invested by shareholders (1)
- Separate legal entity (1) the business and the owners are separate entities (1) or the business can sue and it can be sued (1)

Points against partnership

- No continuity (1) when one partner dies the partnership dissolves (1)
- Unlimited liability (1) if the business fails to pay its debts the owners assets are at risk (1)
- Limited capital (1) number of partners are limited to twenty (1)

[3 marks for, 2 marks against or vice versa, 2 marks for reasoned conclusion]

[7]

Question 3**(a) Identify three reasons why a government may set up public corporations**

- To preserve jobs (1)
- To boost the country's output/Economic growth (1)
- To avoid duplication of resources (1)
- To provide essential services (1)
- To redistribute income and wealth (1)

[Any 3 points]**[3]****(b) Explain what is meant by progressive system, giving an example.**

It is when the percentage of tax increases as the income increases (2) and give an example (1).

[3]**(c) Analyse why public corporations are sometimes privatised?**

- To produce at low cost (1) due to the existence of market forces (1)
- To allow choice for consumers (1) due to the high number of products or competition (1)
- To respond quicker to changing market conditions (1) due to ease decision making (1)
- To reduce the risk of under investment (1) due to efficient allocation of resources (1)
- To free up government revenue (1) which was used for subsidising (1)

[Any 4 points, 3 developed and 1 identified]**[7]****(d) Discuss whether economic growth is always beneficial for countries.****Points for:**

- Improving living standards (1) as there would be better access to goods and services (1)
- Raise more tax revenue (1) through payment of taxation (1)
- National prestige (1) countries are ranked by IMF using their GDP (1)

Points against:

- Environmental effects (1) increased production will lead to pollution (1)
- Depletion of non-renewable resources (1) which results from exploitation of resources (1)
- Strain on the labour force (1) more labour will be needed to increase production (1)

[3 marks for, 2 marks against or vice versa, 2 marks for reasoned conclusion]

[7]

Question 4**(a) Explain the characteristics of any two phases of the economic cycle.**

- Slump (1) high rate of unemployment, negative net investment (1)
- Boom (1) GDP at peak, overspending, high employment (1)
- Recession (1) falling GDP, National income falls (1)
- Recovery (1) increasing rate of employment, production expands (1)

[4]

(b) (i) Explain the reasons why weights are assigned to a basket of goods when calculating inflation.

Weights are assigned to reflect the proportion (1) of income spent on the product (1)

[2]

(ii) Assume consumers spend £30 on food, £40 on clothing and £30 on entertainment. The price of food and clothing rise by 5% whereas the price of Entertainment falls by 10%.

Calculate the inflation rate. (Show your working)

Category	Weight	Price index	Weighted price index
Food	3/10	5% or 105	1.5% or 31.5 (1)
Clothing	4/10	5% or 105	2% or 42 (1)
Entertainment	3/10	-10% or 90	-3% or 27 (1)
Inflation rate			0.5% (1)

[4]

(c) Analyse the effects of inflation on the balance of payments

- Inflation will make local products lose their international competitiveness (1) because they will be too expensive (1) this will lead to a decline in export and hence worsen the country balance of payments (1)
- Or
- Inflation will make imports to be cheaper (1) hence an increase in imports(1) this will lead to a negative balance of payments (1)

[3]

**(d) Do you think it is advisable for a government to reduce the rate of unemployment?
Justify your answer.**

Points for reduction of unemployment

- Increased output than possible (1) as resources are fully employed (1)
- Improved living standards (1) due to more income (1)
- Increased tax revenue (1) from income tax (1)
- Reduced government expenditure (1) such as the unemployment benefits (1)
- Lower social effects (1) due to stress related illnesses and high crime rate (1)

Points against reduction of unemployment

- Reduce the pool of labour elastic (1) which will allow firms to expand (1)
- Might increase inflationary pressure (1) due increased aggregate demand (1)

[3 marks for, 2 marks against or vice versa, 2 marks for reasoned conclusion]

[7]

Question 5

(a) Explain what is meant by Absolute poverty.

It is when people do not have access (1) to basic necessities such as food, housing and clothing (1) .

[2]

(b) Explain any two policies used to alleviate poverty in Swaziland

- Improving the quantity and quality of education (1) this will increase changes of employment and occupational mobility (1)
- Increase in aggregate demand (1) to increase output and jobs (1)
- Introduction or raising of a national minimum wage (1) to improve the living standards (1)
- Encouraging more multi-national companies to set up in a country (1) to create more employment opportunities (1)
- Providing benefits or more generous benefits to the poor (1) such as social grants (1)

[Any two policies explained]

[4]

(c) Explain what usually happens to the occupational distribution of a country as it becomes more developed.

- There is a decline in the proportion of workers in the primary sector (1) an increase in the proportion of workers in the secondary sector (1) and most workers are employed in the tertiary sector (1)

[3]

(d) Analyse any two effects of an ageing population in an economy.

- A rise in the dependency ratio (1) greater proportion of consumers to workers (1)
- A change in the labour force (1) older workers maybe geographically and occupationally less mobile (1)
- Higher demand for health care (1) the elderly place the greatest burden on a country's health service (1)
- Greater need for welfare services (1) such as retirement homes (1)
- Change in the pattern of demand (1) demand for housing for retired people will rise (1)

[Any two analysed effects]

[4]

(e) Many People migrate from rural to urban areas. Do you support rural-urban migration? Justify your answer.

Points for rural migration

- supply of labour (1) more workers are available in the cities (1)
- improved living standards (1) as people get employed (1) and support their families left back home (1)

Points against rural migration

- agricultural production may fall (1) as the active population moves to the cities (1)
- no guarantee that enough jobs will be available (1) leading to negative social effects (1)
- overcrowding (1) causing informal settlements causing poor provision of services by municipalities (1)

[3 marks for, 2 marks against or vice versa, 2 marks for reasoned conclusion]

[7]

Question 6**(a) Define floating exchange rate**

It is the price of one currency in terms of another (1) determined by the market forces (1) [2]

(b) The current account of the balance of payments is divided into four parts. Describe any two of these parts.

- Trade in goods (1) it covers exports and imports of goods (1)
- trade in services (1) it records payments for services sold abroad and expenditure on services bought from abroad (1)
- income (1) it records income flow from abroad such as wages earned by residents working abroad and outflow from abroad (1)
- current transfers (1) transfers of money, goods or services which are sent out or come into the country not in return for anything such as gifts

[Any 2 parts described]

[4]

(c) Analyse how an economy might benefit from trade protection

- Protection of infant industries (1) which may enable small firms to grow (1)
- Protection of domestic industries (1) local businesses are protected from unfair competition (1)
- Protection of strategic industries (1) to ensure consistency of supplies (1)
- Raising employment and improving trade position (1) reducing imports can enable domestic firms to expand and employ more workers (1)
- To prevent dumping (1) it prevents foreign firms from selling their low quality or harmful products at below their cost (1)

[Any 4 points, 3 developed and 1 identified]

[7]

(d) International trade enables countries to specialise in the production of goods and services. Would you advise a country to specialise? Justify your answer.

Points for specialisation:

- higher output (1) consumers enjoy more goods and services (1)
- lower costs (1) as countries can exploit their absolute and comparative advantage (1)
- spread of ideas and technology (1) which will improve efficiency (1)
- increase in competition (1) which will lower prices for consumers and more choice (1)

Points against

- decrease in demand (1) if world demand falls it leads to the loss of a market (1)
- supply problems (1) if the country supplying raw materials is affected the country will also be affected (1)
- interdependency (1) countries rely on other countries for products (1)
- trade restrictions (1) country's exports may not be sold abroad (1)

[3 marks for, 2 marks against or vice versa, 2 marks for reasoned conclusion]

[7]