

**565/2**  
**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)

- (i) One cheque can be used to pay large sums of money. Paying large sums in cash would be bulky and risky.
- (ii) 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.
- (iii) A cheque can be easily carried around (portable). Carrying cash may be tedious.
- (iv) Use of cheques do not require much travel by trader to make payment. When using cash, the trader may need to travel.
- (v) 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.
- (vi) 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)

- (i) It will create a pool of skilled labour in the area where the firms are located.
- (ii) It will lead to general development of the area when the firms are located especially road, electricity and water infrastructure.
- (iii) Auxiliary services such as banking and insurance will also be established in the areas to support the firms leading to more development.
- (iv) It will attract subsidiary firms to the area due to interdependence of firms.
- (v) There will be creation of employment opportunities for the surrounding population.
- (vi) Social amenities such as schools and hospitals will be improved in the area to cater for the large population of the workers and family.
- (vii) 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  $S_0S_0$  to  $S_1S_1$ . (10 mks)



- (i) Improved/better methods of production/improved technology could have reduced the costs of production and increased production of the commodity.
- (ii) Increase in population could have led to many people engaging in the production of the commodity especially if it's an agricultural commodity.
- (iii) Decrease in costs of production that would enable the producers to produce more as capital is available.
- (iv) Favourable weather would lead to increase in production of agricultural goods.
- (v) Reduced taxes on factor inputs would enable producers to supply more.
- (vi) 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)

- (i) The co-operative would fetch better prices for the farmers produce.
- (ii) The farmer would be educated and trained on better methods of production by the co-operative.
- (iii) The farmer can obtain farm inputs on credit from the co-operative.
- (iv) The farmer can obtain a loan from the co-operative.
- (v) The co-operative will provide better storage facilities for the farmers produce.
- (vi) 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)

- (i) When the government controls business and establishes public corporations, they tend to be monopolies.
- (ii) Where a firm controls an important factor of production such as raw materials.
- (iii) If the firm owns production rights of the product eg. Copyrights, patent rights and royalties.
- (iv) Where the firm is the only one that affords the high initial costs of production involved.
- (v) In case there are restrictive practices that force other firms out of market eg. Limit pricing where a firm sells its products at very low prices to drive others out of market.
- (vi) Where firms enjoy massive internal economies of scale such that it reduces its costs of production to a level that others are not able to reach.
- (vii) 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)

- (i) A short channel reduces the costs incurred in distribution thus lowering the costs of the goods.
- (ii) A short channel ensures that goods are not delayed and reach the consumers faster.
- (iii) With a short channel, the producer will have direct contact with the customers (consumer).
- (iv) A short channel ensures that goods reach the consumer when still fresh especially if they are perishable.

(v) 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)

- (i) Promotes development of agriculture by providing speedy transportation of eg. Horticultural products.
- (ii) Facilitates trade as many business people use it to move in and out of the country to trade.
- (iii) Has greatly contributed to growth of the tourism industry.
- (iv) Growth of international airports has attracted development of support services eg duty free shops, banking, catering services etc.
- (v) Has created employment and investment opportunities.
- (vi) Provides revenue to government through various taxes.
- (vii) 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)

- (i) Indicates the standards of living in a country. The higher the national income the higher the standard of living.
- (ii) Used to compare the standards of living in different countries.
- (iii) Used to assess the performance of the economy over time.
- (iv) Assisting the government to plan the economy eg. Comparing different sectors and assessing their needs.
- (v) Assist entrepreneurs and government to make investment decision.
- (vi) 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)

- (i) Some readers just pass through and may miss some advertisements.
- (ii) Newspapers in some cases are short-lived. May be put away quickly.
- (iii) Quality of the adverts may be poor and unattractive.
- (iv) Coverage is limited by the language in which the newspaper is written.
- (v) There is no guarantee that the advertisement being seen and read.
- (vi) 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)

- (i) To inform them of the available business opportunities.
- (ii) To expose the business people to government policies regarding businesses and various requirements.
- (iii) To educate them on how to make use of the available resources to improve business.
- (iv) To train them on modern ways of managing their businesses.
- (v) To impart proper business ethics on the business people.

(Any 5x2 = 10 mks)

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

- (i) Reporting occurrence of the risk to the insurer or agent.
- (ii) Filling in the official claim form giving details of the occurrence of the risk.
- (iii) Investigation of the claim by insurer/agent.
- (iv) Calculation of compensation/preparation of the assessment report.
- (v) 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)

- (i) There is a risk of the seller losing the money owed as bad debts.
- (ii) The goods cannot be repossessed if the buyer is unable to pay for them.
- (iii) Where the buyer is unable to pay for the goods, the seller may incur more expenses in court to recover the money.
- (iv) The seller would require a high amount of capital to operate.
- (v) Seller must maintain a volume and accurate records of debtors.

(Any 5x2 = 10 mks)