

33.2 Business Studies Paper 2 (565/2)

1. (a) Explaining the types of inflation
- (i) Demand-Pull inflation
Refers to a progressive increase in the general level of prices brought about by an expansion in demand. There is too much money chasing very few goods.
 - (ii) Cost-Push inflation
A progressive increase in the general price level brought about by a general increase in the cost of production.
 - (iii) Imported inflation
Refers to an increase in domestic prices resulting from importation of primary goods and inputs at higher prices.
 - (iv) Structural inflation
Refers to a persistent rise in prices resulting from failure of the economy to meet the general increase in demand.
- (4 x 2=8 marks)
- (b) Factors that may hinder the development of a country include:
- (i) Low demand for goods and services which discourages production activities hence interfering with development.
 - (ii) Inadequate capital which leads to low levels of development
 - (iii) Negative sociocultural practices which may hinder production and consumption of certain goods and services.
 - (iv) Inadequate foreign exchange which limits access to imports hence affecting production and consumption.
 - (v) Limited entrepreneurial abilities resulting into inefficiency in production.
 - (vi) Poor management of resources arising from inadequate skills, corruption and poor governance which limit the extent of growth and development.
 - (vii) Poor nutrition and disease prevalence which renders some of the people unproductive as well as channelling much of the income into provision of health care instead of investment.
 - (viii) Use of inappropriate technology which compromises the quantity and quality of goods and services produced.
- (Any 6 x 2=12 marks)
2. (a) Circumstances under which containerization may be used to transport goods include:
- (i) Where bulky goods are imported. Bulky goods are usually transported by sea where containers are used.
 - (ii) Where specialized equipment are available for handling containers.
 - (iii) Where container terminals are available - containerization require container terminals which are specially built to handle them.
 - (iv) Where specialized means of transport like railways are available.
 - (v) Where security of goods need to be guaranteed. Goods of very high value and those that are risky require high level of security which is guaranteed by containers.
 - (vi) Where skilled personnel are available. The handling of containers require specially trained workers to handle and manage them.
- (Any 5 x 2=10 marks)

- (b) (C) Procedure for making an insurance claim
- (i) Notifying the insurer of the loss suffered.
 - (ii) Filling a claim form from the insurer.
 - (iii) Carrying out investigation to determine or ascertain the cause of loss.
 - (iv) Insurance company making a report.
 - (v) Determination and payment of the claim.
- (5 x 1=5 marks)

(II) Determination of compensation

$$\begin{array}{rclcl} \text{Compensation} & = & \frac{\text{Sum assured}}{\text{value of property}} & \times & \text{Actual loss} \\ & & \frac{900,000}{1,200,000} & \times & 500,000 \\ & & & & = \text{Ksh } 375,000 \end{array}$$

(5 x 1 = 5 marks)

3. (a) Factors to consider when choosing a method of promoting a product include:
- (C) Cost of the method. The organization should choose a promotion method that is affordable.
 - (ii) Geographical area of coverage. The organization should choose a method that will reach the customers in their various locations.
 - (iii) Target group. The organization must choose a method that appeals to the relevant target group.
 - (iv) Speed of the medium or method in relation to urgency of the message. The organization should choose a method that will reach the customers within the desired time frame.
 - (v) Nature of the product. Different methods may be chosen depending on the nature of the product e.g. technical products may require demonstrations best achieved through personal selling.
 - (vi) Nature of the message. The organization should choose a method that will best present the various aspects of the message.
- (Any 5 x 2=10 marks)

- (b) Features of economic resources include:
- (C) Scarcity. They are found in small quantities compared to the many uses into which they have to be put and hence not sufficient to satisfy all human wants.
 - (ii) Monetary Value. They have a price attached to them which have to be paid for their use.
 - (iii) Uneven distribution. They are not distributed uniformly in society, hence some people, regions or countries have more of the resources than others.
 - (iv) Combinability. They can be used in different proportions to produce goods and services.
 - (v) Usefulness. They are used to satisfy human wants (have utility).
 - (vi) Transferability. They may be transferred from one person to another in terms of ownership.
- (Any 5 x 2 = 10 marks)

4. (a) Benefits that may accrue to an organization that adopts an open office plan include:
- (i) Easy supervision. It is easy to monitor employee's performance since they are in the same room.
 - (ii) Economy of space. More floor space is available since space has not been lost through partitions.
 - (iii) Minimal cost. It is cheap to construct and maintain.
 - (iv) Sharing of resources. It makes possible for joint use of office facilities.
 - (v) Easy communication. Communication between workers and departments is made easier and faster since there are no physical barriers between them.
 - (vi) Easy reorganization. It is easy to re-arrange the office when need arises.
 - (vii) Enhanced teamwork. Employees work as a team and learn to be together.
- (Any 5 x 2=10 marks)

- (b) Circumstances under which a partnership may be dissolved include:
- (i) Expiry of time or accomplishment of purpose. Where the partnership was formed for a definite time or a particular purpose, the expiry of time and accomplishment of purpose terminates the partnership.
 - (ii) Mutual agreement among partners - where the partners agree among themselves to terminate the partnership.
 - (iii) Bankruptcy of a general partner - where a court declares the value of one of the general partner's property insufficient to settle his or her debts.
 - (iv) Change in law that makes the operations of the partnership illegal.
 - (v) Permanent inability of a general partner to perform or fulfil his part of the partnership agreement either as a result of disease, insanity or death.
 - (vi) Internal dissension among partners - where partners disagree irreconcilably, then the partnership may be terminated.
 - (vii) Persistent losses in operation - where the business has continued to operate at a loss, then it is terminated.
 - (viii) Fraud, mistake or misrepresentation - where the partnership was formed under fraud, mistake or misrepresentation, a Court of Law may order its dissolution.
- (Any 5 x 2=10 marks)

5. (a) Factors that may influence the choice of a channel for distributing flowers include:
- (i) Nature of the flowers - flowers are perishable and therefore need a short channel in order to be distributed quickly.
 - (ii) Cost. The cost of different channels of distribution should be considered and the cheapest channel used.
 - (iii) Nature of the market. If consumers are widespread, then agents may be necessary to reach them.
 - (iv) Tastes and preferences of consumers. Consumers may have specific preferences which might require the personal attention of the producer hence use of a shorter channel.

- (v) Competition. Where competition is high, the producer will have to close to the consumers and will therefore use a short channel of distribution.
- (vi) Quantity. If the quantity of flowers to be sold is large, then more middlemen may be required.
- (vii) Availability of technical personnel. If the producer does not have the required technical personnel, then he may have to use a longer channel.

(Any 6x 2 = 12 marks)

(b) Reasons for maintaining books of original entry include:

- (i) To reduce details to be recorded in the ledger accounts.
- (ii) Act as back-up data from which other information may be extracted if need arise.
- (iii) Contain information which act as reference such as units, trade discounts and terms of sale.
- (iv) The general journal is used to correct errors made when recording transactions.
- (v) The three-column cash book is used as a book of original entry as well as a ledger.

(Any 4 x 2 = 8 marks)

6. (a) Causes of unfavourable balance of payment for most developing countries include:

- (i) Reliance on primary products for export. Most developing countries mainly export primary agricultural products which fetch low prices in the international market.
- (ii) Heavy importation of finished goods. Most developing countries import finished manufactured goods whose value are very high hence spend more on them.
- (iii) Low levels of technology. Most developing countries rely on low levels of technology in production which compromises the quality of their exports and also lowering their value.
- (iv) Too much reliance on foreign borrowing. Most developing countries finance their development projects through heavy borrowing yet such loans are repaid with heavy interests.
- (v) Susceptibility to natural calamities. Many developing countries are easily affected by natural disasters like drought which adversely affect their production.
- (vi) Preference towards foreign goods. Most consumers in developing countries prefer goods manufactured in foreign countries in the belief that they are of better quality.
- (vii) Unfavourable world economic order. The developing countries have very little say in international trade forums and cannot influence the world economic order in their favour.

(Any 5 x 2 = 10 marks)

(b)

Rehema Traders
Balance Sheet
As at 31 December 2007

	<u>Kshs.</u>	<u>Kshs.</u>		<u>Kshs.</u>
<u>Fixed Assets</u>			Capital	590,000
Motor Van	200,000			
Furniture	<u>140,000</u>	340,000	<u>Current Liabilities</u>	
			Creditors	210,000
<u>Current Assets</u>				
Stock	160,000			
Debtors	100,000			
Cash	<u>200,000</u>	<u>460,000</u>		
		<u>800,000</u>		<u>800,000</u>

(10 X 1 = 10 marks)