 **BUSINESS STUDIES- PAPER 2**

**565/2 MARKING SCHEME BUSINESS STUDIES**

1. a)

 **Factors that influence entrepreneural practices**

* **Government policy.** Some government policies may be favourable to the operations while others are unfavourable. Favourable government policies e.g. decrease in taxes may encourage entrepreneurial practices while unfavourable government policies discourage entrepreneurial activities.
* **Level of infrastructure.** Infrastructure refers to the basic systems and services that are necessary for efficient operation of businesses. Infrastructure may include transport network, water systems, electricity, communication etc. Availability of good infrastructure in an area encourages entrepreneurial practices while poor infrastructure discourages entrepreneurial practices.
* **Levels of education and skills.** Relevant knowledge and skills are essential for business success. Knowledge and skills on business can be acquired through education, training and experience. An entrepreneur who has appropriate knowledge and skills is likely to succeed in business than the one without appropriate skills and knowledge.
* **Availability of markets.** Availability of market determines the profitability of the business. Availability market encourages entrepreneurial activities whereas Inavailability of market discourages entrepreneurship.
* **Availability of resources.** For a business to start and run efficiently, resources are required. These resources may include; capital, labour, technology, finances etc.Availability of adequate resources enables the business produce high quality goods and services that will encourage more customers. Availability of adequate resources will therefore encourage entrepreneurial practices while lack of adequate resources discourages entrepreneurial practices.
* **Culture.** Culture refers to the norms, values and beliefs of a given community. Culture influences the kind of goods and services that people consume thereby determining the type of businesses to be established in a given area. E.g. Muslims don’t eat pork, therefore a business selling pork will not be suitable in an area with many Muslims.
* **Level of competition.** Competition is an attempt by businesses to out-do each other in their efforts to attract and retain available customers. A business will therefore do well where there is minimal competition hence lack of competition encourages entrepreneurship than presence of competition
* **Political stability.** Political stability gives a conducive environment for businesses to operate hence encouraging entrepreneurial activities. On the other hand, political instability increases the level of insecurity in a given area hence discouraging entrepreneurial activities.
* **Natural factors.** Natural factors such as rainfall, temperatures, earthquakes, pests, wind, drought etc. may influence the type of businesses that are carried out in a certain area. E.g. finishing is only possible in places with water bodies.

b) **Monetary policies of controlling inflation**

* **Selling of government securities in an open market operation (O.M.O).** the selling of securities such as Bonds and Treasury bills mops money from the economy, reducing the amount of money being held by individuals
* **Increasing the commercial banks cash/liquidity ratio**. This reduces their ability to lend and release more money into the economy, reducing their customer’s purchasing power.
* **Increase rate of interest of lending to the commercial banks**. This forces them to increase the rate at which they are lending to their customers, to reduce the number of customers borrowing money, reducing the amount of money being added to the economy.
* **Increasing the compulsory deposits by the commercial banks with the central banks**. This reduces their lending power to their customers, which makes their customers to receive only little amount from them, reducing the amount of money in the economy
* **Putting in place the selective credit control measures**. The central bank may instruct the commercial bank to only lend money to a given sector of the economy which needs it most, to reduce the amount of money reaching the economy
* **Directives from the central banks to the commercial banks** to increase their interest on the money being borrowed, to reduce their lending rates
* Request by the central bank to the commercial banks (**the moral persuasion**) to exercise control on their lending rates to help them curb inflation.
1. **a) Three Column cash book**

 **SUNLIGHT ENTERPRISE**

 **THREE COLUMN CASH BOOK**

 **FOR THE MONTH OF JAN 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | F | Discount allowed | Cash | Bank | Date | Details | F | Discount received | Cash | bank |
| 2018Jan 13121424th 30 | Bal. b/dSalesAdditionalInvestmentObura Leeroycash | c | 75012001950 | 9500014250109250 | 125000900250002880094250282850 | 2018Jan 121723rd25 27th 283030 | PurchasesJamesKamau SalariesStationeryLeeroyBankBal. c/d | c | 10015001600 | 19500296009425015000109250 | 3900135003600028800199830282050 |

½ x 20 = 10 marks

**N/B** Award marks only if the details column is correct

b) **Differences between Commercial banks and Non-bank financial institutions**

|  |  |
| --- | --- |
|  **Commercial banks** |  **Non-bank financial institution** |
| 1. Provide finance that is not restricted to any sector
 | 1. Provide finance for a specific sector
 |
| 1. May provide foreign exchange services
 | 1. Do not provide foreign exchange services
 |
| 1. Provide short term and medium term finance
 | 1. Mainly provide medium term and long term finances
 |
| 1. provide all types of accounts i.e current, savings and fixed deposit account
 | 1. Mainly offer savings and fixed accounts only
 |
| 1. They are under direct control of the central bank
 | 1. NBFI are not under direct control of the central bank
 |
| 1. May offer overdraft facilities as they operate current account
 | 1. Do not offer overdraft facilities since they do not operate current savings account
 |
| 1. Provides facilities of safe keeping of valuable items
 | 1. Do not provide facilities for safe keeping of valuable
 |
| 1. Provide finance mainly for working capital
 | 1. Provide finance mainly for capital development
 |

1. a) **Price determination in a free market**

 Price D S

 Excess

 Supply

 Pe

 Excess

 Demand

 S D

 Qe Quantity

The price of a commodity is determined by the interaction of demand and supply curves. The resulting price is referred to as the equilibrium price and represents an agreement between sellers and consumers of the good. In equilibrium, the quantity of goods supplied equals the quantity demanded.

At any price below Pe, there will be excess demand, consumers will be forced to pay higher price in order to attract more supply therefore setting the price back to equilibrium. Similarly if a price is set above Pe, there would be excess supply sellers would be willing to lower their prices in order to clear their stock. The end result is a reduction in price back to the equilibrium point.

Award 6 marks for well drawn curves and 4 marks for the explanation

b**) Trends in forms of business units**

* **Amalgamation**- This is where two or more business organisation combine and form one new business. The merging companies ceases to exist
* **Privatisation** - This is where the government sells their shares to the public. It is the changing of state owned corporations into public limited companies
* **Holding companies** - This is where a company acquires 51% or more shares in one or more other companies.
* **Franchising –** This is where one company grants another the rights to manufacture, distribute or provide its branded products using the name of the business that has granted the right.
* **Check off system** - This is a system where members contribution to Saccos are deducted at source.
* **Performance contract.** These are contracts signed by employees in state corporations where they commit perform to set standards.
* **Cartels -** A cartel is a group of related companies that agree to work together in order to control output, price and markets of their products.
* **Absorption ( take over)**This is where a business buys all assets of another business
* **Burial benevolent funds (BBF).**This is a system mostly in SACCOs which is aimed at assisting their members financially during burials
* **Front office savings account (FOSA).**This is a service which used in SACCOs to enable their members conveniently deposit and withdraw.
1. a) **Factors to consider when choosing an appropriate method of product promotion**
* **Cost of the method of promotion method**

A more affordable method of sales promotion should be chosen.

* **Nature of the product**

Some products because of their nature require to be promoted by specific methods only. For example a product requiring demonstration is best promoted through personal selling. Therefore the firm should chose a method of product promotion that suits its products

* **Target group**

The promoter should a method of promotion that reaches his/her target group so as to reduce wastage.

* **Objectives of the promoting firm**

Sometimes, firms undertake product promotion in order to achieve certain objectives. For instance, if the objective is to correct the bad image of the firm, public relations should be preferred. A firm should therefore choose a method of sales promotion that will help meet the objectives of the firm.

* **Methods used by the competing firm**

Firms should choose methods of promotion that enables them compete favourably with their competitors that is the firm should use a different method of promotion from the one the competitor is using

* **Government policy**

A firm should use only those methods that are allowed by the law of the land

* **Geographical region**

Some products may require countrywide coverage while others will require regional coverage. The firm should therefore choose a method that will cover the geographical area intended

* **Availability of the promotion method**

Some methods of product promotion are easily available than others. A firm should therefore choose a method that is easily available

 **b) Characteristics of economic resources**

* + **They are scarce in supply** – economic resources are limited in supply. This means that resources are less in supply than what is required by human beings.
	+ **Have money value** – economic resources have value at which they can change ownership.
	+ **Can be combined** – Economic resources can be combined to produce other goods and services.
	+ **Can change ownership** - The ownership of economic resources can be shifted from one person to another through trade.
	+ **Economic resources have utility** - This resources have the ability of satisfying human wants.
	+ **Have alternative uses** - Economic resources can be put into different uses. Individual have to choose the most appropriate use for resources.
	+ **Can be complimentary-** different economic resources may be consumed together.
	+ **Economic resources are unevenly distributed.** Different places are endowed with different quantities of economic resources.

**5 a)**

 **CHELULE TRADERS**

**PROFIT & LOSS ACCOUNT**

**FOR THE PERIOD ENDED 31/12/2019**

**DR CR**

|  |  |
| --- | --- |
|  |  |
|  KshSalaries 95,000Transport 16,000Commission allowed 8,000Insurance 92,000Power & lightning 2,500Advertising 4,500Discount allowed 500Net profit c/d 190,700 402,000 ½ x 14 = 07 marks |  KshCommission received 2,800Rent income 72,000Gross profit 326,000Discount received 1,200 402,000  |

**CHELULE TRADERS**

**BALANCE SHEET**

**AS AT 31/12/2019**

|  |  |
| --- | --- |
| Assets **Sh**. **Sh** Fixed assets Machinery 800,000Furniture 150,00 950,000Current assetsStock 15,000Debtors 35,000 Bank 89,700 Cash in hand 74,000 213,700 1,163,700 *½ x 10 = 05 marks*  | Capital + liabilities **Sh Sh**Capital 626,000Add profit 190,7000 826,700Long term liabilitiesN.I.C Bank loan 320,000Current liabilitiesCreditors 17,000 1,163,7000 |

1. b) **Principles of public expenditure**
* **principle of maximum social benefit.** Any expenditure by the county should ensure that majority of the population will benefit out of any spending in development projects.
* **Sanctions.** The principle requires approval of any expenditure by the relevant authority e.g county assembly approvals.
* **Proper financial management .**County funds should be well managed. This should be facilitated by proper financial recording.
* **Economy.** Any expenditure by the country government should minimize wastage at all costs.
* ***Flexibility /elasticity-***The policy on public expenditure should be flexible enough to meet prevailing economic situations i.e. it should be possible to increase or decrease the expenditure on projects depending on the prevailing circumstances e.g. during drought, it should be possible to spend on famine relief.
* **Productivity-**The biggest proportion of public expenditure should be spent on development projects and less on non-development projects.
* **Equity**-Government expenditure should be distributed equitably to all sectors of the economy in order to reduce income and wealth inequalities.
* **Surplus**-Surplus revenue collected should be saved for emergencies or for when collection of revenue is below projections.
1. **a) Features of perfectly competitive product market**
* **There is wider knowledge about the market**. Consumers in a perfectly competitive product market have adequate knowledge about price, quality and other market conditions. This therefore enables them to make a rational decision on the product to buy
* **The products are homogenous.** This implies that the units produced are similar and therefore buyers have no preference between different units.
* **There is no transport cost.** This ensures that products are charged the same price irrespective of the regional difference.
* **Large number of buyers and sellers.** This widens consumer’s choice on where to buy his/her product. It also ensures that no player in this market structure can influence the market.
* **Free entry and exit of firms into the market.** This ensures that all firms are given equal opportunities to trade
* **No excess supply or demand.** This promotes price stability. Therefore the buyers can budget his expenditure.

Students to be awarded 2 marks only if he/she gives the significance of the feature otherwise award only 1 mark for starting the feature

1. **b) Reasons for protectionism**
* **Protection of local infant industries.** Trade restriction protects local infant industries from unfair competition from established foreign industries which are able to sell goods at a cheaper price hence controlling the market
* **Promote self-reliance.** Through trade restriction, local producers may be encouraged to increase their productivity in order to ensure a constant supply of goods and services so as to avoid over-reliance on imports which may not be available during times of emergencies
* **Protection of strategic industries.** Strategic industries are the very important industries to the country such as those providing security. The country needs to protect these industries to ensure they don’t over depend on foreigners. To do this, the government has to restrict foreign trade
* **Expansion of market for local products.** Discouraging imports increases demand for local products.
* **Discourage dumping.** Dumping refers to a situation where a country disposes its products cheaply in another country. Dumping brings about unfair competition to local industries hence has to be discouraged.
* **Creation of employment.** Discouraging imports encourages local industries to emerge in order to produce goods that could have been imported. These industries will contribute to employment creation.
* **Preservation of the balance of trade.** Discouraging imports ensures the balance of trade is always favourable.
* **Protection of cultural and social values.** Trade restriction controls the adoption of harmful cultures from foreign countries through interaction during trade activities.

 **END**