

KENYA NATIONAL EXAMINATION COUNCIL KCSE, 2014

BUSINESS STUDIES PAPER 2 ANALYSIS

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3.5.3 Business Studies Paper 2 (565/2)

Question 1 (b)

Explain **five** demerits that a country may suffer when the government becomes a major investor in business. (10 marks.)

This question required candidates to explain the demerits that a country may suffer when the government becomes a major investor in business.

Weaknesses

A majority of candidates failed to adequately explain the demerits while others displayed complete lack of knowledge in this area.

Expected responses

- I. Discourages private investment. This may perpetuate unfair competition by creating monopolies.
- II. Poor quality goods and services. The quality of goods may be compromised due to absence of competition and low enthusiasm by the employees.
- III. Limited choices for consumers. Where the government is the only provider of a good or service, consumers may be denied variety.
- IV. Inefficiency. Lack of profit motive hampers productivity which may lead to losses.
- V. Burden to tax payers. They may lead to increased government expenditure especially where they are not able to sustain themselves.
- VI. Lack of accountability. Managers of government run businesses tend to misappropriate and embezzle public funds.
- VII. Unstable management. Government run businesses are prone to frequent changes in their management occasioned by changing political leadership.
- VIII. Political patronage/interference. This leads to appointment of cronies which may promote unethical practices.
- X. Increased bureaucracy/Red tape. Government-run businesses are rigid and slow to respond to changes in the market.

Advice to Teachers

Teachers should be thorough when teaching the topic on government involvement in business. The objective on merits and demerits of government involvement in business should be covered

thoroughly.

Question 3 (a)

Explain **five** objectives that may be achieved by establishing firms in different parts of the country.
(10 marks)

This question required candidates to explain the objectives that may be achieved by establishing firms in different parts of the country.

Weaknesses

This question was poorly performed as many candidates gave the factors determining location of firms, while others wrote merits of delocalization.

Expected responses

- (i) To reduce rural-urban migration. This helps to retain the productive population in the rural areas as the influx of people to urban areas from the rural is curbed.
- (ii) To utilize local resources. Resources which would have otherwise been idle is put to productive use.
- (iii) To provide balanced regional development. Creating firms in different parts of the country will ensure that all parts grow at the same time and rate.
- (iv) To promote development of infrastructure. This opens up parts of the country which would have otherwise remained remote.
- (v) To promote development of social amenities. The social welfare of the people is improved.
- (vi) To reduce social problems. It minimizes social problems like pollution, prostitution, crime and congestion.
- (vii) To promote urban growth. Establishment of firms promotes the development of market economies which encourages urbanization.
- (viii) To minimize effects of calamities. Calamities cannot affect investments that are spread in different parts of the country at one go.

Advice to Teachers

Guide the candidates on question interpretation and how to frame their responses to address the demands of the question.

Question 5(a)

Explain **five** disadvantages that a developing country may suffer by liberalizing foreign trade.
(10 marks)

This question required the candidates to explain the disadvantages that a developing country may suffer by liberalizing foreign trade.

Weaknesses

Most candidates seemed not to understand the concept of liberalization in foreign trade since they confused it with free trade and also economic integration.

Expected responses

- (i) May lead to dumping of inferior goods into the country.
- (ii) May cause overexploitation of resources leading to their depletion.
- (iii) May lead to loss of jobs due to closure of local firms which cannot cope with competition.
- (iv) May contribute to worsening balance of payment situation as developing countries have fewer/lowly valued exports.
- (v) Cultural values and beliefs may be eroded due to unrestricted trade
- (vi) Entry of harmful goods. Goods with harmful ingredients such as beauty creams and drugs may find their way into the country.
- (vii) Slow economic development. The country may stagnate due to overdependence on other countries for supplies.
- (viii) Brain drain. Skilled personnel may be lost to better developed countries which provide better amenities and pay

Advice to Teachers

Teachers should ensure that all aspects of emerging issues and trends in the topic of international trade are covered during instruction.