

BUSINESS PAPER 2 FORM 3 MARKING SCHEME

ISNTRUCTIONS

- This paper consists of six questions
- All questions carry equal marks
- Answer any five questions

1. a) Outline any five differences between a public limited company and a public corporation (10mks)

public limited company

- owned by private individuals who own shares**
- formed under companies act**
- formed to make projects**
- profits to shareholders**
- financed by shareholders**

public corporation

- fully owned by government**
- formed by act of parliament**
- formed to perform specific tasks**
- profits go to the government**
- financed by the government**

(5x2= 10mks)

b) Explain five factors that influence the location of business enterprises (10mks)

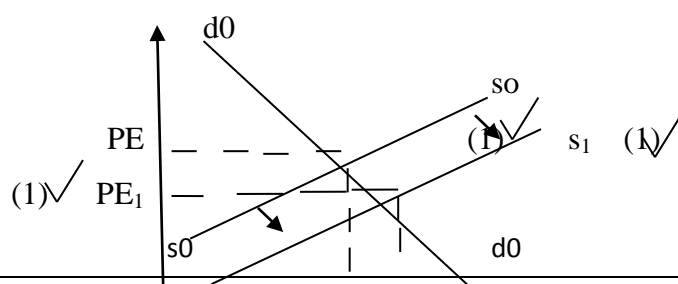
- Availability of raw materials – **firms are located near sources of raw materials, to obtain the raw materials when still fresh and to ensure constant supply of raw materials**
 - Availability of market- **firms are located near markets to reduce costs of transporting finished products and to ensure steady supply of goods in the market.**
 - Availability of water and power- **firms are located where there is power because it's used for lighting and moving machines. water is used for moving machines, as a raw material and as a cleaning agent.**
 - Government policy –**sometimes government influences location of firms in order to reduce regional inequalities and encourage balanced regional development**
 - Availability of auxiliary services such as banking, insurance and transport (any 5 well explained x2 =10mks)
2. a) The diagram below shows the equilibrium price and quantity of commodity A which is produced jointly with commodity B.

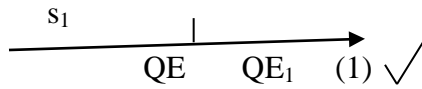
do do-demand curve

so so - supply curve

PE -Equilibrium point

QE -Equilibrium quantity





- i. On the diagram show the effect of a decrease of tax charged on commodity B on the equilibrium price and quantity of commodity A (4mks)
 - ii. Explain the effect of a decrease of tax charged on commodity B on the equilibrium price and quantity of commodity A (6mks)
 - When tax charged on commodity B, decrease its supply and that of commodity A increases (1) ✓
 - The supply curve of commodity A shifts outwards to the right to S_1S_1 (1) ✓
 - The equilibrium price decreases from PE_0 to PE_1 (2) ✓
 - The equilibrium quantity increases from QE_0 to QE_1 (2) ✓
- b) Bidco Kenya Ltd. is a manufacturer of soap and edible oil products. Highlight five reasons why the company chooses to distribute its products through wholesalers rather than selling directly to consumers (10mks)
- Wholesalers share the risks associated with trading goods with the producers e.g handling risks.
 - Wholesalers would provide vital information to the producer
 - Wholesalers may engage in product promotion activities for the producers products
 - They would provide the much needed capitals to the company
 - wholesalers would relief the company some costs, transport costs, insurance and warehousing costs.
- (any 5 well explained x2) no splitting
3. a) Explain any four ways in which the Kenya government involves itself in government activities in the country (10mks)
- i. Regulation of business activities by passing laws that affect businesses and through licencing
 - ii. Training of business people on proper business management, problem solving techniques etc.
 - iii. Trade promotion through agencies such as KETA, through commercial attachees and the national chamber of commerce.
 - iv. Providing an enhancing environment to businesses e.g constructing good roads, providing security etc.
 - v. Consumer protection-government passes some laws that ensure that consumers are not exploited.
 - vi. Provision of public utilities such as water, health, education etc.
- b) Discuss five ways which county governments in Kenya can use to attract entrepreneurs in their areas. (10mks)
- i. providing access to cheap credit to potential entrepreneurs
 - ii. Improving infrastructure in their areas
 - iii. providing incentives such as cheap land to attract investors
 - iv. Having favourable policies for entrepreneurs e.g. setting taxes and other charges at manageable levels.

- v. **providing education and training to potential entrepreneurs especially locals**
 - vi. **Enhances security in their areas**
 - vii. **Improving social amenities in their areas**
4. a) Kenya association of manufactures (KMA) brings Kenyan manufacturers together to solve problems faced by the manufacturers as well as consumers. Discuss five measures taken by the manufacturers to protect consumers (10mks)
- i. **Setting standards for products produced by their members to ensure good quality for goods enjoyed by consumers**
 - ii. **investigating complaints made by consumers against their members and taking action where possible**
 - iii. **Establishing a code of ethics to guide their members in their business activities**
 - iv. **selling pre-packed and pre-weighed goods to intermediaries to ensure consumers are protected from under-weight goods.**
 - v. **indicating the recommended retail price on products produced to ensure consumers are not overcharged for the commodity**
- b) Discuss five importances of natural resources in a country (10mks)
- i. Resources such as water bodies are habitat for fish and other aquatic animals that the a source of food
 - ii. land is used for cultivation of crops thus increasing food production
 - iii. Minerals are used as raw materials in industries and some are exported to earn forex
 - iv. Mountains and other attractive sites attract tourists who in turn earns the country forex
 - v. Exploitation of natural resources creates employment opportunities to citizens who earn income and improve their standards of living.
 - vi. Water in rivers and lakes is used for irrigation thus increasing food production
5. a) A recent economic survey showed a very big gap between the rich and the poor in Kenya Explain any five factors that could have led to this disparity in income distribution among individuals in Kenya (10mks)
- **Differences in talents – those endowed with some talents e.g athletes, professional footballers, artistes, tend to earn higher income**
 - **Corruption has led to a few individuals being rich at the expense of others**
 - **Differences in access to quality education**
 - **inheritance**
 - **skewed economic policies that perpetuate the rich getting richer and the poor getting poorer.**
- b) Highlight any five reasons why there are so many small-scale business firms in Kenya despite the economies of scale enjoyed by large firms (10mks)
- i. **Small-scale firms require small amount of capital to start**
 - ii. **They are simple and easy to manage**
 - iii. **some services can only be provided in small scale**
 - iv. **Some businesses/professions have restrictions**

- v. **Government policy may influence a firm to remain small**
 - vi. **Small markets are better served by small firms**
6. a) Discuss any five circumstances under which an insurer may not compensate the insured in the event of a loss (10mks)
- **If insured has no insurable interest in insured property**
 - **if property is destroyed by act of nature e.g earthquake**
 - **If insured had stopped paying premium before occurrence of the risk**
 - **if loss occurred due to willful action ie insured. property caused the loss**
 - **if insured fails to report occurrence of the risk within the stipulated period of time.**
 - **if insurer is insolvent or declared bankrupt**
 - **if insured went against the principle of utmost good faith.**
- b) Explain any five functions of marketing boards
- i. **ensure farmers produce is bought and sold at fair prices**
 - ii. **organize collection of produce from different parts**
 - iii. **Acquire farm inputs and sell them to farmers at fair prices**
 - iv. **Search for markets on behalf of the farmers**
 - v. **They extend credit to farmers**