

(725)

## TRIAL 2017 BUSINESS STUDIES

1 (a). Explain five reasons why the government should create an enabling environment to investors.

- i) To minimize cost of doing business
- ii) To open new areas/hitherto neglected by investors (local foreign)
- iii) To expand the tax base and hence increase revenue
- iv) To enhance economic development in the country
- v) To promote public/private sector relationship
- vi) To create employment opportunities
- vii) To increase the level of National/increase product
- vii) To avail a variety of goods and services.

(b) Describe five differences between insurance and assurance

Insurance	Assurance
(i) Protection offered to property (against unforeseen risks)	(i) Protection offered to life (against unforeseen risks)
(ii) Risk insured against may or not happen	(ii) Risks insured against must happen (and time is not known)
(iii) The insurance contract is renewable after every year (short term)	(iii) Insurance contract is for life and does not require renewal (long term)
(iv) Compensation is given to owner of property in case of loss/uncertain	(iv) Compensation is given to beneficiaries in case of death/certain
(v) A replacement for the good lost can be given/contract of indemnity	(v) Lost life can never be replaced/not a contract of indemnity
(vi) Has no surrender value	(vi) Has a surrender value
(vii) Policy can't be used as collateral to secure loans	(vii) Policy can be used as collateral to loans
(viii) Has no maturity date	(viii) Has a maturity date
(ix) Principle of subrogation applies	(ix) Principle of subrogation does not apply
(x) Cannot be used as a savings scheme	(x) Can be used as a savings scheme
(xi) Sum insured depends on the blanket value of the insured property/not adjustable	(xi) Sum insured depends on the ability to pay the premium/can be adjusted
(xii) Proof of insurable interest	(xii) No need of proof of insurable interest at the time of death
(xiii) Policy cannot be assured	(xiii) Policy can be assured

2. (a) explain five ways in which government expenditure stabilizes the economy of a country

- i) Provision of security: This creates an enabling environment for economic activities
- ii) Creation and maintenance of administrative departments: These are created for effective operation of a country's economy e.g. salaries
- iii) Social services: This enhances the welfare of the population for effective participation in economic activities.



- iv) Spending on infrastructure - It improves efficiency in production and distribution of goods and services in the economy.
- v) Advancement of non-interest earning capital to entrepreneurs during economic recess
- vi) Provision of basic growth and services through subsidies.
- vii) Promoting local industries

(b). Explain five circumstances under which one would decide to start a personal business

- i) Where there is need to create employment
- ii) Where additional income is needed
- iii) Where there is need to apply business skills acquired
- iv) Where there is need to invest surplus funds
- v) Where one has a business idea to implement
- vi) Where one wants to become own boss
- vii) Where there is a machine/gap
- viii) Where there is need to use talent
- ix) Where there is need to use of spare time

3 (a) Explain five negative effects of inflation on the economy of a country

(i) Discourage savings

People tend to spend the money they have due to the falling value of money due to increase in prices

(ii) Increase in interest rates/high cost of credit

Due to the fact that there is less saving in the country the savings is but high interest rate to composer lenders for the fall in the value of money.

(iii) People with fixed income hard hit/ people with fixed income suffer

Because the value of their income falls they will afford less goods/services increased cost of living accept e.g. of face income earners as a naming

(iv) Lenders lose: lenders of money receive less value of the money they advanced to debtors/where interest rates charged are fixed

(v) Worsening balance of payment: Exports become more expensive this leads to falling of demand for exports as people may prefer to buy cheap imports/ as people may increase demand for imports due to unfavourable terms of trade.

(vi) Unfair/uneven distribution of income: with the rich becoming richer /poor becoming poorer

(vii) Low income earners/unemployed are hard - hit: since they may not be able to afford the basics /may result to illegal means of earning a living.

viii) Hampers implementation /preparation of development plans/ budget: because more funds have to be raided due to rising prices since it is difficult to forecast expenses/meet goods.

(ix) Loss of confidence in the currency: which may encourage barter trade preference for foreign currencies /necessitate change of currency

(x) Adverse effect on investments: due to increased cost of operation /reduced value of earnings

(b) Explain five ways of making face to face communication effective

- (i) clarity of the message - so as to avoid misunderstanding /ambiguity
- (ii) use of non-verbal cues/gestures to clarify verbal messages
- (iii) Proximity/nearness: communicating parties being close to each other within communicating range.