**565/2**

**BUSINESS STUDIES**

**PAPER 2**

1. **(a)Five advantages of an open plan office layout.**

* Easy to supervise staff since they are in one room.
* Economic use of office machines since they can be shared.
* Communication is effective since all workers are close together.
* Improves interpersonal relationship between staff.
* It saves on office space since many people are accommodated in one room.
* Cost of construction and maintenance is low since few materials are used for construction and few maintenance workers are employed.
* It is cheap to decorate since it is only one room.
* Minimal movement by workers saves time.
* Mischievous actions by workers are discouraged since there is no isolation.
* It increases efficiency in that unauthorized absenteeism, lateness and early departure from work can easily be monitored.

Any 5 well explained points 5x2=10mks

**b. Reasons for existence of small firms despite competition from large scale firms.**

1. **Nature of products**: some businesses offering personal services such as nursing or law that can only be provided by an individual or small firm.
2. **Size of the market:** Where demand for good or a service is low, small firms are the most appropriate.
3. **Legal constraints:** Law may restrict the growth of firm. Therefore in such circumstances the existing firms remain small
4. **Need to retain control**-In order to retain control and independence the owners of the firm may wish to keep it small.
5. **Quick decision making**: In a situation where proprietors want to avoid delay in decision making they may opt to maintain a small business as this would involve less consultations.
6. **Rising costs of production:**

In situations where production costs rise so fast, such that diseconomies of small set in very early, the firm has to remain small.

1. **Simplicity of organization.**Small firms have the considerable advantage of simplicity of organization the firm may remain scale too take advantage of this.
2. **Flexibility of small firm:**

A small firm is more adaptable to changing circumstances, where the owner of a business wishes to maintain flexibility so as to take advantages of any new opportunity he/she may have to maintain a small firm.

1. **Belief that small firm is more manageable.**

Many small businesses have the potential of expansion, yet their owners prefer to have them remain small believing that big businesses are difficult to run.

Any 5x2 = 10mks

1. **(a) Principles of insurance**
2. **Principle of indemnity**

Insurance aims at restoring the insured to the financial position he/she was in before the loss occurred and not benefit him/her.

1. **Insurable interest**

The insured must prove that the occurrence of the risk will cause him/her financial loss.

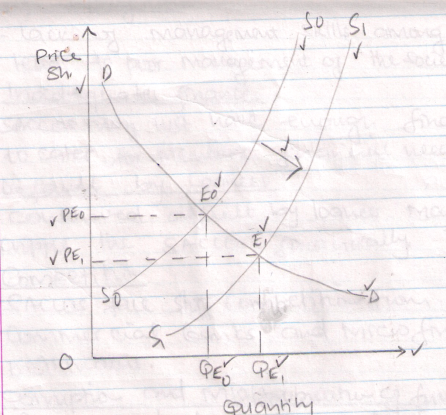
1. **Utmost good faith (uberrima fidei)**

The insured must disclose all materials and relevant information that may affect insurance contract it subsequently comes to light.

1. **Proximate cause.** There must be a fairly close connection between the cause of the loss and the risk insured.
2. **Subrogation.**

Incase of total loss and full compensation the insurer, assumes the rights that insured had on the property destroyed.

1. C**ontribution-** Incase of property being insured by more than one insurance firm, all the insurers share the burden of compensation in the proportion of coverage of the risk.

Any 5 well explained principles.5x2= 10mk**(b) Effect of an increase in supply to the equilibrium price and quantity of a product. ½**x 12=6mks

1. The initial price and quantity was PEo, QE1 respectively.
2. An increase in supply shifts the supply curve to the right.
3. The equilibrium price and quantity would change as from PEo - PE1(decrease) and QEo – QE1 ( an increase)
4. Therefore, the effect of an increase in supply is that equilibrium price decrease while equilibrium quantity increases. 1x4=4mks
5. **(a) Problems facing savings and credit cooperative societies.**
6. **Poor management-**Lack of management skills among members leads to poor management of the societies.
7. **In adequate finances.**SACCOS may not have enough finances to cater for members financial needs.
8. **Default by loanees-**Continued default by loanees may cripple the SACCOS financially.
9. **Competition-**SACCOS face stiff competition from commercial banks and microfinance institutions. Corruption and misappropriation of funds. This may lead the SACCOS to financial problems
10. **Membership withdrawal.**

A SACCO may experience financial problems if many members withdraw their membership at the same time.

1. High demand for loans- against the receipts from monthly contributions leading to delays.
2. Late remittance of members contributions by the employer.

Any 5 well explained points. (5x2=10mks)

**(b) Reasons for government involvement in Business Activities.**

**- Protection of citizens from exploitation-**The government is usually involved in the provision of essential services so as to protect its citizens from being exploited by business people.

**Large capital investment-**The government undertakes to provide essential goods and services which private organizations are unable to provide due to the large amount of initial capital required e.g. Kenya Ports Authority (KPA) .

**Provision of essential services.-**A government will engage in business when the goods and services to be provided are essential to its citizens but the private individuals and organizations are unwilling to venture because of low profit and /or high risks.

**Stimulation of economic development.-**The government may stimulate economic development in the country e.g. by providing essential services such as roads, it may also give incentives such as tax exemptions or even provided loans at reduced interest rates.

**Creation of employment.-**The government may create employment opportunities by initiating projects such as provision of electricity.

**National interest-**A government may involve itself in business to provide goods and services which are sensitive and would therefore be threat to national security if left in the hands of the private sector.

**Prevention of monopolies-**The government may participate in business activities in order to prevent monopolies from being established.

**Attraction of foreign dominance**The government may initiate major business projects at attract foreign investors.

**Prevention of foreign investments.-**The government may involve itself in business activities in areas where the locals are unable to prevent domination by foreign investors. Any 5 well explained points5x2=10mks

1. **(a)Reasons for continued use of human porterage.**

* Human porterage is very flexible since they have no fixed timetable and can pass where they are required, in areas that are inaccessible by motor vehicles.
* It is cheap as no cost is involved at all especially where the owner of the goods is the transporter.
* It is convenient in that it is always readily available where there are people.
* It does not result in pollution, unlike other means of transport.
* It is not susceptible to delays that are usually occasioned by congestion and traffic jams.
* It is inexpensive where the owner of the goods has to hire somebody to transport the goods from one place to another.
* Low costs of constuctign the way as only paths are required. Any 5 5x2=10mks

**(b) Reasons for a firm to relocate to rural areas**.

i. When it is a government policy aimed at achieving balanced regional development and hence firms have no choice but to comply.

ii.When the cost of land in urban centres is high and hence the firms cannot afford it.

iii.When the land for expansion in urban areas is reduced and hence firms cannot expand.

iv.When the cost of controlling pollution in urban areas is very high hence he/she relocates to reduce the cost of production.

1. When the raw materials are readily available in rural areas hence reducing the cost of production/increasing profit margins.
2. When there is readily available market in the rural areas hence reducing on transportation costs
3. When there is improvement of infrastructure in rural areas and hence maintenance costs. Any 5x2=10mks
4. **(a) Ways in which warehousing promotes trade in Kenya**
5. **Storage of raw materials**-There is continuous supply of raw material which ensures continuous production.
6. **Stabilizing prices.** By storing finished goods, supply in the market is maintained at a stable level.
7. **Marketing**-Traders are able to look for markets when goods are still in the warehouse.
8. **Preparing goods for sale**- some goods may be blended or packed while still in a warehouse.
9. **Checking for harmful goods.-**Bonded warehouses allow for checking of goods by the government to ensure that only legal and good quality goods are traded .

Any 5 well explained points 5x2=10mks

(b) **Problems encountered when computing National Income by the Income approach.**

i. Difficulty in estimating income from the subsistence sector.

ii.There is lack of data on income obtained from illegal activities e.g. drug trafficking

iii.It is difficult to differentiate real incomes from transfer payments.

iv.In cases where the workers are paid in kind –it is difficult pt determine the worth of their labour.

v.Vague disclosure of income especially by those who want to evade tax.

vi.It is difficult to know how much income is paid abroard and how much income is earned from abroad.

Any 5 well explained points. 5x2=10mks

1. (a**) Characteristics of perfectly competitive market**.
2. **There is a large number of producers**

Each producers output is a negligible in proportion to the total output of the commodity in the market.

1. **Presence of a large number of buyers.**

The actions of one buyer have no effect on the prevailing market price or output.

1. **Homogenous products** -each unit of output is identical to any other unit from a different firm.
2. **Free entry and exit-**There is free entry into and exit out of the market by firms
3. **Perfect knowledge of the market-**Producers and consumers have thorough knowledge of all the commodities produced their quality and the price charged.
4. **No government interference -** The prices prevailing in the market are determined by the forces of demand and supply.
5. **Uniformity of the buyers and the sellers** – All buyers are identical in the eyes of the sellers, similarity all sellers are identical in the eyes of buyers.
6. **No excess supply and demand**-The sellers are able to sell all that they supply into the market .The buyers are able to buy all what they require.
7. **Perfect mobility of factors of production**-The factors are assumed to be perfectly mobile.
8. No transport cost-It is assumed that the buyers and the sellers are located in one area hence do not incur any cost in transport or carriage of the goods.
9. Any 5 well explained points 5x2=10mks

(**b)Factors to be considered in choosing a particular channel of distribution.**

1. **Number of potential customers**-When customers are few manufacturers may use its own sale force and for large number of customers the manufacturers would use intermediaries.
2. **Geographical concentration of the market**-Where the market is centralized, in a few geographical areas, direct distribution is okay.
3. **Order size**-It is economically feasible to sell directly to customers who can buy their goods in large quantities.
4. **Unit value of the product** –products of high unit value can be distributed directly to the customers due to higher risks.
5. **Nature of the product**-Perishable goods, require short channel since delays or handling by many middlemen may result to heavy losses. Bulky products need short channels to reduce transportation and handling costs.
6. **The intermediaries-**Different intermediaries perform different functions.
7. **Competitors**-A firm wishing to have its produce compete directly with that of a competitor would select a channel that the competitors use.
8. **Government policy**-Government laws and regulations may prohibit manufacturers or their own outlet from selling directly to customers.
9. **Marketing risks**-When producers want to avoid risks in distribution they may sell through middlemen.

**END**

`