

**MARKING SCHEME  
BUSINESS STUDIES  
PAPER 1  
FORM 3  
MID TERM 2 2026 EXAMINATION**

1. State four internal economies of scale that a firm can enjoy as its production increases. (4mks)
  - **Marketing economies**
  - **Financial**
  - **Risk bearing economies**
  - **Managerial economies**
  - **Technical economies**
  - **Research economies**
  - **Welfare economies**
  
2. Highlight four uses of national income statistics (4mks)
  - **Indicators of the standards of living**
  - **Comparing standards of living in different countries**
  - **Assessing the performance of the economy over time.**
  - **Assisting the government to plan the economy**
  - **Investment decision.**
  
3. Mention four ways of solving the problem of unemployment in Kenya. (4mks)
  - **Education system reforms**
  - **Regional development of informal sector**
  - **Exploitation of natural resources**
  - **Export promotion and import regulation**
  - **Diversification of economic activities**
  - **Population control.**
  
4. Outline four features of perfect competition market structure. (4mks)
  - **Large number of buyers and sellers**
  - **Homogeneity (uniformity) of the product**
  - **Perfect knowledge of the market**
  - **Freedom of entry or exit**
  - **Uniformity of buyers and sellers**
  - **No government interference.**
  - **No excess supply or demand**
  - **Perfect mobility of factors of production**
  - **No transport cost**
  -
  
5. Highlight four characteristics of basic human wants. (4mks)
  - **One cannot live without them**
  - **They cannot be postponed**
  - **They are satisfied before secondary wants**
  - **They are felt needs**
  
6. Highlight four reasons why Kiosks continue to exist in an economy despite stiff competition from supermarkets (4mks)
  - **Flexibility of small firms**
  - **Quick decision making**
  - **Size of the market**

- **Nature of the product**
- **Rising costs of production**
- **Simplicity of organization**
- **Belief that a small firm is more manageable**
- **Legal constraints**
- **Need to retain control**

7. Sources of business ideas.

- Gaining from waste**
- Identifying market gap**
- Listening to what people say**
- Hobbies and interests**

8. Highlight five factors to consider when selecting an office equipment. (5mks)

- **Cost**
- **Durability**
- **Adaptability**
- **Possibility of hiring rather than buying**
- **Effect on staff morale**
- **Availability of manpower**
- **Availability of room**
- **Availability of complementary resources.**
- **Security of the equipment**

9. Outline four factors that may hinder effective communication in a classroom set up. (4mks)

- **Language barrier**
- **Poor listening**
- **Negative attitude**
- **Prejudgment**
- **Emotional response**
- **Noise**
- **Wrong medium**

10. Kamau a young entrepreneur would like to start a business in Muhoroni town. Outline four factors that would show the existence of a business opportunity within the town. (4mks)

- **In availability of products**
- **Poor quality products**
- **Insufficient quantities**
- **Unaffordable prices**
- **Poor services**

11. Identify the office equipment that's used in each of the purposes. (5mks)

(i) Printing postage impressions on envelope

**Franking machine**

(ii) Pinning papers together

**Stapling machine**

- (iii) Preparing cash receipts

**Cash register**

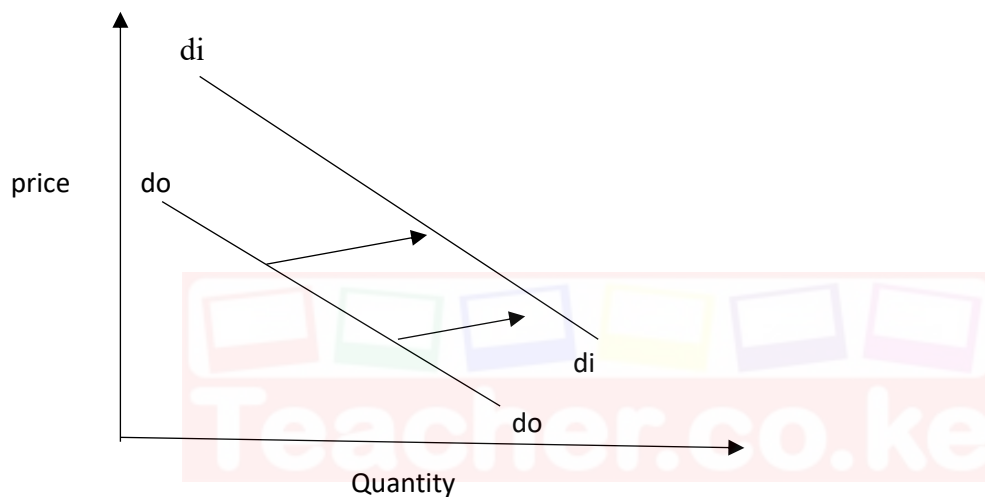
- (iv) Cutting unwanted documents into tiny pieces

**Paper shredders**

- (v) Making holes in papers to facilitate filing

**Paper punch**

12. Outline any four factors that would have led to the phenomenon shown in diagram below. (4mks)



- **Increased level of consumer income**
- **Reduced prices of commodities**
- **Favourable government policy**
- **Increased population**
- **Future expectation of increase in prices**
- **Favourable seasonal changes**
- **Favourable terms of sale**
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13. Highlight four circumstances under which a trade may use air transport. (4mks)

- **Goods are of high value/expensive goods**
- **Goods are to be transported over long distance**
- **Urgency is important**
- **Goods are perishable**
- **Fragile goods**
- **Where safety is crucial**
- **Where other means cannot be used**
- **Affordability**

14. Dissolution of partnership.

- In case continued disagreement among partners.**
- In case of death of a partner**

**If there's is an admission of a new partner  
In case of the end of temporary partnership**

15. List four forms of retail businesses that a school leaver may engage in .

(4mks)

- **Automatic vending machine**
- **Canteens**
- **Kiosks**
- **Open air market trading**
- **Mobile shops**
- **Single shops**
- **Market stalls**
- **Tied shops**
- **Roadside trading**
- **Itinerant trading**
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16. Highlight four roles played by the broker in the chain of distribution.

(4mks)

- **Linking the buyers and the seller**
- **Bargaining for the principal**
- **Passing information between the principal and client**
- **Facilitating access to a variety of goods and services to the buyer**
- **Providing an a venue for the seller to access many buyers**
- **Giving advice to buyers and sellers on market trends**

17. Highlight four benefits of localization of firms.

(4mks)

- **It encourages development of infrastructure**
- **Creation of employment**
- **Encourages creation of a pool of labour**
- **Encourages the establishment of support business enterprises**
- **Creating market for local raw materials**
- **Encourages the establishment of support business enterprises**
- **Creating the use of idle local resources.**

18. State four basic features of a market.

(4mks)

- **Availability of buyers**
- **Availability of sellers**
- **Availability of medium of exchange**
- **Availability of goods and services/product**
- **A platform for conducting transactions/ place**
- 

19. Circumstances under which personal selling is appropriate.

**Where market is concentrated in one are**

**Where goods require demonstration**

**Where the firm require to boost the efforts of sales person**

**Where goods are tailored to meet customer's specification\ions**

20. State the principles of Insurance described in the statements given below.

(4mks)

(a) Restoring the Insured's financial position after suffering loss from an insured risk.

## indemnity

- (b) Existence of a very close relationship between the loss suffered and the Insured risk.

### Proximate cause

- (c) The Insurer taking ownership of the remains of the destroyed property after the Insured is duly compensated.

### Subrogation

- (d) Proof that the Insured will suffer direct financial loss if property is destroyed.

## Insurable interest

21. State the four principles that govern the co-operative societies in Kenya. (4mks)

- **Democratic administration**
- **Limited interest on capital**
- **Provision of education to members**
- **Open and voluntary membership**
- **Provision of dividends**
- **Cooperation with other co-operatives**

22. State five components of business studies. (5mks)

- **Economics**
- **Commerce**
- **Office practice**
- **Entrepreneurship**
- **Accounting**

23. Give four reasons why most banks prefer a landscape office. (4mks)

- **Easy supervision by the management**
- **Low construction cost**
- **Easy location of workers**
- **Minimizes staff movement hence saving time**
- **Low maintenance cost**
- **Saving of floor space**
- **Cheap to decorate**
- **Decorations used boost the morale of the employees**

24. Advantages of division of labour and specialization.

**Increases output per work**

**Encourages use of machines**

**Enable one to concentrate on what one does best**

**Encourages invention and innovation**

25. Sources of capital for a public limited company.

**Selling shares**

**Selling debentures**

**Loans from banks**

**Leasing out property**

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