

**BUSINESS STUDIES FORM 4  
MID TERM 2 2026**

**MARKING SCHEME**

**Question 1**

a) Factors hindering economic development in Kenya (Any 5 x 2 = 10 mks):

1. Political instability - Discourages investment.
2. Inadequate skilled labor - Lowers productivity.
3. High population growth - Strains available resources.
4. Poor infrastructure - Increases cost of doing business.
5. Corruption/Mismanagement - Leads to loss of public funds.

b) Reasons for remaining small-scale (Any 5 x 2 = 10 mks):

1. To maintain personalized services.
2. To avoid management complexity.
3. Limited market size.
4. Desire to maintain control/ownership.
5. Availability of specialized niche market.

**Question 2**

a) Circumstances for monopoly power (Any 5 x 2 = 10 mks):

1. Control of essential raw materials.
2. Legal protection (patents/copyrights).
3. High startup capital required.
4. Mergers and takeovers.
5. Government policy (e.g., state monopolies).

b) Government creating enabling environment (Any 5 x 2 = 10 mks):

1. Providing security.
2. Developing infrastructure.
3. Enacting favorable laws/policies.
4. Maintaining stable political environment.
5. Ensuring sound monetary and fiscal policies.

### Question 3

a) Calculation (4 mks):

Formula: Closing Capital = Opening Capital + Additional Investment + Net Profit - Drawings

$$620,000 = 450,000 + 80,000 + \text{Net Profit} - 35,000$$

$$620,000 = 495,000 + \text{Net Profit}$$

$$\text{Net Profit} = 620,000 - 495,000 = \text{Ksh } 125,000$$

b) Business success factors (4 internal + 4 external x 2 = 16 mks):

Internal: Skilled management, adequate capital, quality products, good customer service.

External: Favorable government policy, low competition, stable economy, positive social trends.

### Question 4

a) Features of efficient transport (Any 5 x 2 = 10 mks):

1. Reliable.
2. Affordable/Cost-effective.
3. Fast/Speedy.
4. Safe/Low risk of damage.
5. Flexible.

b) Functions of CBK (Any 5 x 2 = 10 mks):

1. Issue currency.
2. Banker to the government.
3. Banker to commercial banks.
4. Controls inflation (monetary policy).
5. Manages national foreign reserves.

### Question 5

a) Ways to control inflation (Any 5 x 2 = 10 mks):

1. Increase interest rates (monetary policy).
2. Reduce government expenditure.
3. Increase taxes (fiscal policy).
4. Wage control measures.
5. Improving production/supply of goods.

b) Negative effects of inflation (Any 5 x 2 = 10 mks):

1. Reduced purchasing power.
2. Increased cost of living.
3. Loss of savings.
4. Balance of payment problems.
5. Industrial unrest (demands for higher wages).

### **Question 6**

a) Benefits of a trading bloc (Any 5 x 2 = 10 mks):

1. Larger market access.
2. Reduced trade barriers (tariffs).
3. Economies of scale.
4. Improved political cooperation.
5. Easy movement of factors of production.

b) Principles of insurance (Any 5 x 2 = 10 mks):

1. Utmost good faith (Uberrimae fidei).
2. Insurable interest.
3. Indemnity.
4. Proximate cause.
5. Contribution/Subrogation.

