SECTION B

Read the following extracts (E to H) before answering Question 2.

Write your answers in the spaces provided.

Extract E

Furniture firm *Moko* raises 786.6m Kenyan shillings (KES) to expand

Moko, a Kenyan furniture company, sells home furnishings, sofas, beds and mattresses. It has raised KES 786.6m ($6.5m) in venture capital to expand.

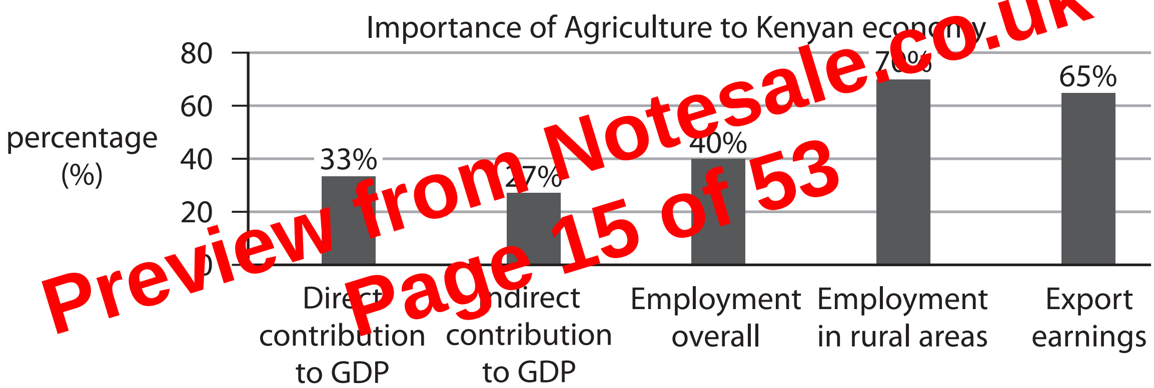
Moko will use the money raised to expand its business across Kenya through its digital platform and by forming partnerships with more retailers. Some of the venture capital will be invested in new machinery and in expanding its product range.

Moko plans to enter new markets in other African countries by 2025. The demand for furniture across the continent is expected to grow, driven by population growth, urbanisation and increasing purchasing power.

(Source : adapted from (https://www.capitalfm.co.ke/business/2022/10/furniture-firm-moko-raises-sh786-6-million-to-expand-business-line/)

Extract F

Contribution of agriculture to the Kenyan economy



In 2020, Kenya's total exports were $6.52bn. Of these the largest were tea ($1.2bn), cut flowers ($596m), refined petroleum ($308m), gold ($262m), coffee ($229m) and tropical fruits ($191m).

(Source: adapted from: https://www.fao.org/kenya/fao-in-kenya/kenya-at-a-glance/en/ and https://oec.world/en/profile/country/ken)

(Total for Question 2 = 50 marks)

TOTAL FOR SECTION B = 50 MARKS
TOTAL FOR PAPER = 100 MARKS

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Question Number	Assess whether a firm should expand during a recession. Indicative content	Mark
1(c)	**Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4** • A recession is when an economy experiences prolonged negative economic growth (in the UK it is defined as two consecutive quarters) • During this time aggregate demand (AD) is likely to fall and unemployment to rise • Many firms will face falling demand for their output such as travel firms and business confidence will fall • In the short run, production may be cut to reduce the cost of holding inventory • Demand for inputs fall and those firms that supply them will also face falling demand • Employees may have reduced working hours and even be laid off causing less consumption and so AD falls and the cycle repeats • However, not all firms will face falling demand, those that produce income inelastic goods such as *Apple* and services may not be badly affected • Firms that produce inferior goods such as budget supermarkets may well see an increase in demand and increase production, perhaps even expanding their facilities • Recessions do not last forever; some firms may decide it is a good time to expand in order to be prepared for the economic recovery that will follow • During a recession, resources are more readily available, prices of land, machinery and raw materials are likely to be lower • Labour will be more plentiful with no upward pressure on wages • Therefore, the costs of investment for expansion are cheaper than at other times during the economic cycle • For those firms that can take advantage, it may be a good time to expand • Much will depend on the nature of the firm, its products/services and its financial position	**(12)**

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding, using little or no relevant evidence. Arguments and chains of reasoning may be attempted. Limited attempt to address the question.
Level 2	3–5	Elements of knowledge and understanding, using limited relevant evidence. Arguments and chains of reasoning are developed. Judgements may be attempted.
Level 3	6–8	Accurate knowledge and understanding, supported throughout by use of relevant evidence which is well chosen. Arguments are developed, using logical, coherent chains of reasoning. A balanced awareness of competing arguments.

Demonstrating application (AO2) in responses

Where questions specifically stipulate the use of data or information provided in a stimulus, students:

- must directly reference, interpret or analyse the information provided in the stimulus
- in addition, may select examples from their own knowledge but these must be relevant and directly connected to the context/issues set out in the stimulus.

Where questions do not specifically stipulate the use of data or information provided in a stimulus, students:

- must select relevant examples from their own knowledge, these must be directly connected to the context/issues set out in the question, and
- may directly reference, interpret or analyse the information provided in any relevant stimulus.

Question Number	Assess how the depreciation of the shilling may affect Kenyan firms such as *Moko*. Indicative content	Mark
2(c)	**Knowledge/understanding 2, Application 2, Analysis 4, Evaluation 4** • An exchange rate is the price of one currency expressed in terms of another • The Kenyan shilling has been depreciating against the dollar for 16 months and has reached a record low • Depreciation of a currency is usually seen as being good for exporters and bad for importers • If *Moko* imports raw materials for its furniture, it is likely to see a rise in the costs of production • This may result in *Moko* raising prices to maintain profit margins • If the PED of *Moko's* furniture is relatively elastic this will have a larger and detrimental impact on sales because revenue will fall • Kenyan consumers are already experiencing rising costs of living and may be unwilling to buy new furniture as their real incomes decline • However, *Moko* is planning to enter new markets elsewhere in Africa and a depreciating shilling may effectively lower the price of their furniture when exported • Extract E states that the population and purchasing power of consumers is increasing in these intended markets • This could increase sales, making it easier to get established and gain competitive advantage • Purchasing power is increasing across the continent and the increase in export sales may offset problems in the domestic market • Much will depend on how much longer the Kenyan shilling continues to depreciate and its relative value compared to other African countries	**(12)**