

LUKWANNGA SECONDARY SCHOL-WAKISO
ECONOMICS SEMINAR QUESTIONS 2024 AND SOLUTIONS

SECTION A

1. (a)(i) Distinguish between technological dualism and literacy dualism

- ✓ Technological dualism refers to the coexistence of capital intensive techniques alongside labour intensive techniques.

While

- ✓ Literacy dualism refers to the coexistence of literates alongside illiterates.

(ii) Mention any two dangers created by economic dualism in Uganda.

- ✓ It results into low tax revenue
- ✓ It promotes un balanced regional development
- ✓ It results into low aggregate demand for goods and services.
- ✓ It causes rural urban migration and its evils.

(b) (i) What is meant y closed shop trade union?

- ✓ Closed shop trade union refers to an association of workers who perform similar or identical tasks and agree to only hire union members.

(ii) Mention any three methods used by labour unions to achieve their objectives in an economy.

- ✓ Collective bargaining
- ✓ Mediation
- ✓ Court action
- ✓ Sit down strikes
- ✓ Picketing
- ✓ Violet strikes
- ✓ Demonstration

(c) (i) What is an autarky economy?

An autarky economy refers to an economy that doesn't participate in international trade.

(ii) Give any three adverse effects of an autarky economy.

- ✓ It limits variety of goods and services
- ✓ It leads to production of poor quality goods and services
- ✓ It limits market for goods and services
- ✓ It limits government revenue from taxes
- ✓ It leads to underutilization of resources

(d) (i) The price of a commodity reduced from shs. 10,000/- to shs 7500/- and as a result quantity demanded of the commodity increased from 10kg to 12kg.

Calculate PED.

$$\begin{aligned} PED &= \frac{\text{proportionate change in quantity demanded}}{\text{Proportionate change in price of commodity}} \times \frac{\text{original price}}{\text{original quantity}} \\ &= \frac{12 - 10}{7500 - 10,000} \times \frac{10,000}{10} \\ &= -0.8 \end{aligned}$$

(ii) Comment on your answer

The price elasticity of demand is -0.8 hence the demand of the commodity is inelastic.

(e) (i) Distinguish between the home pay and unearned income.

- ✓ Take home pay refers to the income which is available to individuals for spending or saving after personal income taxes and other compulsory payments have been made.

While

- ✓ Unearned income refers to the income received by an individual without corresponding exchange of goods and services.
- (ii) **Give three examples of unearned income in an economy.**
 - ✓ Pocket money for students
 - ✓ Grants
 - ✓ Sick relief allowance
 - ✓ Gifts

SECTION B

2. (a) Why do prices of agricultural products fluctuate?

- ✓ Long gestation period
- ✓ Bulkiness of agricultural products thus difficult to transport
- ✓ Change in costs of production
- ✓ Heavy dependence on nature
- ✓ Divergences between planned and actual out put
- ✓ Agricultural products perishable
- ✓ Substitution of agricultural products with synthetic products
- ✓ Existence of many producers
- ✓ Weak bargaining power of law developing countries on the world market
- ✓ Poor surplus disposal system
- ✓ Low income elasticity of demand for agricultural products.

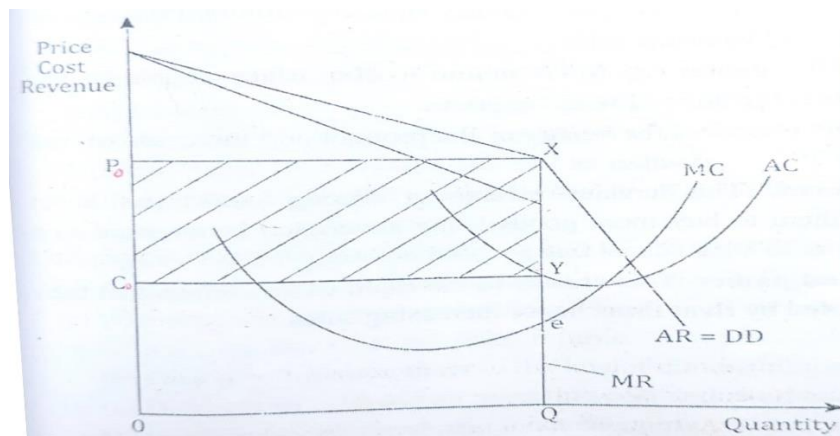
(b) Suggest measures that can be adapted to stabilize prices of agricultural products in an economy.

- ✓ Infrastructures can be improved
- ✓ Storage facilities can be improved
- ✓ Agriculture should be modernized
- ✓ Market can be diversified
- ✓ International commodity agreements should be strengthened
- ✓ Agro based industries should e promoted
- ✓ Formation of cooperative societies can be encouraged
- ✓ Agricultural diversification should be encouraged
- ✓ Farmers should be subsidized
- ✓ Price control by the government should be undertaken

3. (a) How does a firm under oligopoly determine output, price and profits in short run?

In short run, profits under oligopoly, firms are determined by producing at a point of equilibrium where marginal costs is equal to marginal revenue ($MC=MR$).

Illustration of short run profit maximization under Oligopoly



From the illustration above;

- ✓ Equilibrium output is determined at point *e* where marginal revenue is equal to marginal cost ($MR = MC$)
- ✓ Cost is determined at point Y where the output line meets AC hence $cost c_0$.
- ✓ Price is determined at point X where output meets average curve (AC) hence price P_0
- ✓ Oligopoly firms earn super normal profits in short run represented by shaded area P_0, C_0, yx where average revenue curve is greater than average cost curve ($AR > AC$)

(b) Discuss the methods taken by oligopoly firms to increase their sales in Uganda.

- ✓ Offering sales in Uganda
- ✓ Providing after sales service
- ✓ Provision of credit facilities
- ✓ Opening up branches in different places
- ✓ Offering gifts to buyers
- ✓ Use of one stop shopping centers
- ✓ Participating in trade affairs and exhibitions
- ✓ Sponsoring sports events
- ✓ Organizing consumer games and raffle draws
- ✓ Use of attractive packaging
- ✓ Persuasive advertising

4. (a) How is the consumer price index computed?

- ✓ Choosing a suitable base year
- ✓ Selecting a representative basket of goods
- ✓ Collecting retail prices for selected goods in the basket for both current year and base year
- ✓ Calculating simple price index for each commodity in the basket
- ✓ Calculating the average simple price index for the entire basket
- ✓ Attaching weight for the selected goods in the basket
- ✓ Calculating the weighted price index for each commodity in the basket
- ✓ Calculating the average weighted index for the entire basket.

(b) Explain the uses of price indices in an economy

- ✓ They are used in measuring changes in the value of money
- ✓ They are used in wage determination
- ✓ They are used in comparing cost of living of people in the country over time.
- ✓ They are used in comparing cost of living between countries
- ✓ They are used to measure terms of trade
- ✓ They are used to deflate nominal national income to obtain real national income
- ✓ They are used to determine the tax rate.

5. (a) Distinguish between cost of living and standards of living.

- ✓ Cost of living refers to the amount of money required by an individual to sustain a life style he/she is accustomed to.

While

- ✓ Standards of living refer to the condition of life in which people live or hope to live.

(b) What are the limitations of using per capita income to compare standards of living of people over time?

- ✓ It ignores availability of time for leisure over time.
- ✓ It ignores the level of taxation over time
- ✓ It ignores changes in political climate over time
- ✓ It ignores changes in the level of taxation on people's income over time
- ✓ It ignores changes in rate of inflation over time

- ✓ It ignores changes in level of employment over time
 - ✓ It ignores changes in the nature of goods produced over time
 - ✓ It ignores changes in level of social costs over time
 - ✓ It ignores changes in the quality of goods consumed over time.
 - ✓ It ignores changes in availability of time for leisure over time
- 6. (a) Account for the low level of employment in Uganda.**
- ✓ Rural-urban migration
 - ✓ Ignorance of the people about the available jobs
 - ✓ Unfavourable climatic conditions
 - ✓ Technological progress
 - ✓ Physical and mental disabilities
 - ✓ Discrimination in the labour market based on age, sex or religion.
 - ✓ High population growth rate
 - ✓ Poor education system
 - ✓ Poor land tenure system
 - ✓ Limited market
 - ✓ Limited capital
 - ✓ Political instabilities
 - ✓ Unfavourable government policy on investment
- (b) Explain the measures that are being adopted to increase the level of employment in Uganda.**
- ✓ Controlling population growth rate
 - ✓ Maintaining political stability
 - ✓ Advertising the available jobs
 - ✓ Modernizing agriculture
 - ✓ Encouraging use of appropriate technology
 - ✓ Supporting disadvantaged group of people
 - ✓ Adopting educational reform
 - ✓ Adopting land reforms
 - ✓ Improving infrastructures
 - ✓ Widening market
 - ✓ Diversifying the economy
 - ✓ Undertaking liberalization of economy.
- 7. (a) Differentiate between headline inflation and underlying inflation.**
- ✓ Headline inflation refers to inflation caused by rising prices of food items in the country in a given period of time.
- While**
- ✓ Underlying inflation refers to inflation caused by rising prices of non-food items in the economy in the given period of time.
- (b) Explain the factors responsible for high rates of inflation in Uganda.**
- ✓ Breakdown of infrastructures
 - ✓ Political instabilities
 - ✓ Excessive exportation of essential goods
 - ✓ Greed for excessive profits by traders
 - ✓ Natural calamities
 - ✓ Excessive assonating of currency
 - ✓ Excessive government expenditure
 - ✓ Excessive inflow of income from abroad
 - ✓ Excessive lending by commercial banks
 - ✓ Importation from countries experiencing inflation
 - ✓ Rising costs of production
 - ✓ Speculation by traders

- ✓ Depreciation of the local currency
- (c) Explain the adverse effects of inflation in Uganda**
 - ✓ It discourages saving
 - ✓ There is less confidence in the local currency
 - ✓ Fixed income earners suffer greatly as real income reduces
 - ✓ It discourages lending
 - ✓ It makes planning difficult
 - ✓ It discourages investment
 - ✓ It worsens income inequality
 - ✓ It encourages illegal activities
 - ✓ It strains workers
 - ✓ It makes the government unpopular
 - ✓ It leads to industrial strikes
 - ✓ It leads to capital out flow
 - ✓ It leads to collapse of some firms
- 8. (a) Explain the role of infrastructure in the development of Uganda.**
 - ✓ It increases government revenue
 - ✓ It promotes investment
 - ✓ It promotes development of labour skills
 - ✓ It promotes trade
 - ✓ It promotes utilization of resources
 - ✓ It improves social welfare of people
 - ✓ It provides employment opportunities
 - ✓ It promotes industrial development
 - ✓ It promotes economic growth
 - ✓ It promotes agricultural development
 - ✓ It promotes technological development
 - ✓ It promotes diversification
 - ✓ It controls inflation
 - ✓ It promotes entrepreneurship skills
 - ✓ It leads to increased foreign exchange
- (b) What strategies have taken by the government of Uganda to improve on infrastructure?**
 - ✓ Constructed new infrastructures
 - ✓ Maintained infrastructures
 - ✓ Constructed with private firms to develop infrastructures
 - ✓ Set up supportive institutions such as UNRA, UCC
 - ✓ Raised funds
 - ✓ Improved labour skills
 - ✓ Imported modern technology
 - ✓ Liberalized investment in the sector
 - ✓ Adapted land reforms
 - ✓ Improved accountability
 - ✓ Improved political climate
- 9. (a) Differentiate between agricultural mechanization and agricultural modernization**
 - ✓ Agricultural mechanization is the extensive use of machines in farming activities to improve quality and quantity of agricultural produces.
 - While**
 - ✓ Agricultural modernization refers to the changing of agricultural sector from substance production of commercial production.
- (b) Explain the factors limiting modernization of agriculture in Uganda.**

- ✓ Limited capital
- ✓ Limited skilled labour
- ✓ Poor technology
- ✓ Limited market
- ✓ Conservatism of farmers
- ✓ Poor infrastructures
- ✓ Poor land tenure system
- ✓ Political instability
- ✓ Low level of entrepreneurial skills
- ✓ Unfavourable natural factors
- ✓ Fluctuating prices of agricultural products
- ✓ Poor topology

10. “Developing countries should resort to foreign aid as a mean of funding to accelerate the growth and development.” Discuss.

Developing countries should resort to foreign aid as a mean of funding to accelerate the growth and development due to its merits as explained below.

- ✓ It closes the foreign exchange gap
- ✓ It closes the saving investment gap
- ✓ It closes the skilled manpower gap
- ✓ It closes the technology gap
- ✓ It closes the government revenue expenditure gap
- ✓ It solves the effect of natural calamities
- ✓ It promotes infrastructural development
- ✓ It promotes industrial growth
- ✓ It promotes political stability

developing countries should not resort to foreign aid as a mean of funding to accelerate the growth and development due to its demerits as explained below.

- ✓ It worsens balance of payment problems
- ✓ It leads to unemployment
- ✓ It worsens economic domination by donors
- ✓ It makes planning difficult
- ✓ It undermines political sovereignty
- ✓ It encourages laziness
- ✓ It leads to cultural erosion
- ✓ It leads to brain drain
- ✓ It leads to underutilization of local resources
- ✓ It leads to high costs of borrowing
- ✓ It limits capital accumulation
- ✓ It worsens external debt burden
- ✓ It subjects the economy to inappropriate and undesirable decisions.

11. (a) What challenges does Uganda face when implementing development plans?

- ✓ Limited statistical data
- ✓ Political instability
- ✓ Limited supply of skilled planners
- ✓ Limited funds
- ✓ Poor infrastructures
- ✓ High ratio of inflation
- ✓ Low levels of accountability
- ✓ High degree of political interference
- ✓ High levels of dependence on the external sources
- ✓ Over ambitious planning
- ✓ Unfavourable natural factors

- ✓ Limited government commitment

(b) Suggest measures that should be adopted to improve development planning in Uganda.

- ✓ Data collection should be undertaken
- ✓ Political stability should be maintained
- ✓ Inflation should be controlled
- ✓ Skills to planners should be provided
- ✓ Sufficient plans should be raised
- ✓ Infrastructures should be improved
- ✓ Accountability should be improved
- ✓ Political interference in planning should be discouraged
- ✓ Dependence on foreign aid should be reduced
- ✓ Over ambitious planning should be avoided
- ✓ Government commitment should be ensured

12. (a) Discuss the rights and obligations of tax payers in Uganda.

Rights of tax payers

- ✓ Right to equity
- ✓ Confidentiality
- ✓ Facilitation of tax compliance
- ✓ Right to objection and appeals
- ✓ Right to prior notice
- ✓ Accountability
- ✓ Right to tax refund
- ✓ Customer care
- ✓ Processing returns

Obligations of tax payers

- ✓ Registration
- ✓ Filing returns and entries
- ✓ Tax payments
- ✓ Cooperation with the authority
- ✓ Declaration

(b) Account for the low level of tax compliance in Uganda.

- ✓ Low level of actual income
- ✓ High tax rates
- ✓ Low tax audit
- ✓ Low fines
- ✓ Low levels of tax education
- ✓ Absence of information
- ✓ Limited accessibility to tax administration services
- ✓ Inequitable distribution of tax burden
- ✓ Low level of consistence in application of tax laws
- ✓ Low level of respect extended by the authorities and staff to the tax payers
- ✓ High levels of corruption
- ✓ Long procedures of paying taxes
- ✓ High rate of inflation
- ✓ Complicated tax laws
- ✓ Unpopularity of the government

13. (a) Account for the formation of regional economic integration

- ✓ To promote resource utilization
- ✓ To widen consumer choices
- ✓ To attract foreign resources
- ✓ To increase employment opportunities

- ✓ To increase bargaining power of member countries on world market
- ✓ To widen market for products
- ✓ To create trade
- ✓ To improve quality of output
- ✓ To promote international relations among member countries
- ✓ To promote development infrastructures
- ✓ To promote specialization and its advantages
- ✓ To promote industrialization in the region

(b) Explain the challenges of regional economic integrations in developing countries.

- ✓ Limited geographical proximity (countries not being in the same region)
- ✓ Differentiate in political and economic ideologies
- ✓ Poor infrastructures among member countries
- ✓ Production of similar goods
- ✓ Conflicts among leaders
- ✓ Differences in market size
- ✓ Differences in social and cultural factors
- ✓ Lack of political support
- ✓ Failure to share benefits equally
- ✓ Political instability in the same member countries
- ✓ Differences in currencies
- ✓ Differences in the level of development
- ✓ External interference especially from donors

14. (a) Explain the theory of comparative advantage.

- ✓ It states that; given two countries, two commodities and same amount of resources, one country should specialize in production of that commodity where it incurs the lowest opportunity cost compared to other countries.

The following are the assumptions of the theory.

- ✓ It assumes two commodities are produced
- ✓ It assumes only two countries are involved in international trade
- ✓ It assumes full employment resources
- ✓ It assumes constant technology
- ✓ It assumes free trade between countries

The theory of comparative advantage is relevant in the following ways in developing countries

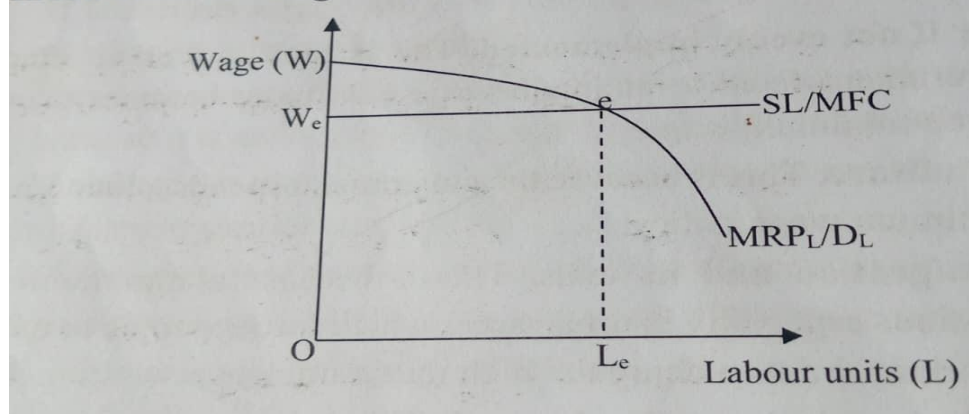
- ✓ In LDCs there are cases of free trade
- ✓ There is some degree of factor mobility within one country and factor immobility between countries
- ✓ LDCs tend to specialize in agriculture production where they have lowest opportunity cost.
- ✓ Barter trade as a medium of exchange still exists in LDCs.

(b) Account for the limited relevance of comparative advantage theory to developing countries.

- ✓ It assumes two commodities but there are many commodities in international trade.
- ✓ It assumes two countries yet there are many countries involved in international trade
- ✓ It assumes full employment of resources
- ✓ It assumes constant technology yet technology keeps on changing every time
- ✓ It assumes that demand is elastic yet demand for agricultural products is inelastic
- ✓ It assumes no transport costs yet transport costs are reflected in prices of commodities

- ✓ It assumes absence of currency restrictions yet countries have different restrictions which creates differences in the exchange rates
 - ✓ It assumes mobility of factors of production internally yet there is some degree of factor mobility internationally and immobility internally
 - ✓ It assumes constant corporative advantage among countries yet this may change with time as new resources are discovered and old ones get exhausted.
 - ✓ It ignores the existence of the law of diminishing returns yet the law exists
- 15. (a) Account for the unfavourable terms of trade in developing countries.**
- ✓ Weak bargaining power of LDCs on the world market
 - ✓ Exportation of primary products
 - ✓ Market flooding of similar products on the world market
 - ✓ Importation of expensive manufactured goods
 - ✓ Falling prices of exports
 - ✓ Poor quality of exports
 - ✓ Protectionist policies of most developing countries
 - ✓ Adoption of raw material saving technology by developed countries
 - ✓ Increased substitution of exports with synthetic products by developed countries
 - ✓ Low economic elasticity of demand for exports
 - ✓ Raising prices of exports
- (b) Suggest strategies that may be taken to correct the unfavourable terms of trade in LDCs**
- ✓ Import substitution industries should be set up
 - ✓ Commodity agreements should be strengthened
 - ✓ LDCs should negotiate for removal of trade barriers in export market
 - ✓ Exports should be diversified
 - ✓ Exports should be processed
 - ✓ Export market should be diversified
 - ✓ Quality of the exports should be improved
 - ✓ Products for exports should be manufactured
 - ✓ Importation from cheaper sources should be encouraged
 - ✓ Campaign for use of natural products should be encouraged
- 16. (a) Explain the marginal productivity theory of wages**
- ✓ The theory states that; the worker should be paid a wage which is equal to the value of its marginal product.
 - ✓ The value of marginal product = price X marginal product
 - ✓ The value of marginal product is also called Marginal Revenue Product (MRP) therefore, wage = marginal revenue product

Illustration of marginal productivity theory of wages.



Where

SL = Supply of Labour

MCF = Marginal factor Cost

DL = Demand for Labour

MRPL = Marginal revenue product of labour

E = Equilibrium point

W_e = Equilibrium wage

L_e = Equilibrium units of labour

The theory is based on the following assumptions;

- ✓ It assumes that all labour units are homogeneous
- ✓ It assumes that labour is easily substitutable
- ✓ It assumes no government intervention in wage determination
- ✓ It assumes full employment of labour in the production process

(b) What are the limitations of marginal productivity theory of wage determination?

- ✓ It assumes that labour units are homogeneous yet are not always homogeneous
- ✓ It assumes that labour is easily substitutable yet labour has varying productivity based on level of education, natural talents etc
- ✓ It assumes no government intervention yet there is existence of government interference on wage determination.
- ✓ It assumes full employment of labour which is not true because of wide spread of unemployment.
- ✓ It assumes that marginal product of labour can be calculated yet it is difficult to calculate marginal product of labour in some sectors.
- ✓ The law of diminishing returns does not hold all the time due to increasing return to scale especially if workers are motivated by high wages

17. (a) Explain how the tools of monetary policy can be used to control inflation in Uganda.

- ✓ Increasing marginal requirement
- ✓ Adopting a restrictive credit rationing policy
- ✓ Increasing the bank rate
- ✓ Increasing cash ratio
- ✓ Persuading commercial banks to restrict lending
- ✓ Increasing the legal reserve requirement
- ✓ Selling government securities to the public
- ✓ Lending to priority sectors
- ✓ Increasing the special deposits

Note: show how they are used to control inflation

(b) Discuss the factors limiting the effective operation of the monetary policy in Uganda.

- ✓ Excess liquidity in some commercial banks
- ✓ High liquidity preference among the people
- ✓ Corruption in advancing loans
- ✓ Underdeveloped money and capital market
- ✓ Political interference in commercial banks operation
- ✓ Dominance of foreign owned commercial bank
- ✓ Conflicting government objectives
- ✓ Limited effective use of commercial banks

18. (a) Describe the traits of Uganda's informal sector

- ✓ Mainly operates on small scale
- ✓ Mainly produce poor quality output
- ✓ Mainly produce for the local market
- ✓ Mainly use labour intensive technology
- ✓ Mainly use local resources
- ✓ Mainly urban or semi urban based
- ✓ Mainly employees semi or unskilled labour
- ✓ Limited formal book keeping and limited maintenance of records.

(b) Assess the contribution of informal sector to the development of Uganda.

Positive contribution

- ✓ It creates more employment opportunities
- ✓ It promotes resource utilization
- ✓ It widens consumer choices
- ✓ It promotes technological development
- ✓ It promotes development of entrepreneurial skills
- ✓ It generates revenue
- ✓ It promotes economic growth
- ✓ It leads to production of locally affordable goods
- ✓ It promotes commercialization of the economy
- ✓ It provides cheap training ground for local labour

Negative contributions

- ✓ It causes government revenue instabilities
- ✓ It leads to production of poor quality output
- ✓ It is associated with high administrative costs
- ✓ It encourages duplication of economic activities
- ✓ It causes pollution of environment
- ✓ It leads to disguised unemployment
- ✓ It promotes unbalanced regional development.

19. (a) Why are public enterprises being privatized in Uganda?

- ✓ To provide revenue to the government
- ✓ To provide employment opportunities
- ✓ To improve quality output
- ✓ To widen consumer choice
- ✓ To improve labour skills
- ✓ To promote development infrastructure
- ✓ To promote technological development
- ✓ To promote efficiency in firms
- ✓ To improve B.O.P
- ✓ To promote economic growth
- ✓ To promote commercialization of the economy

(b) What problems have been encountered in the privatization of public enterprises in Uganda?

- ✓ Opposition from the public
- ✓ Poor valuation of the enterprise
- ✓ Poor state of the enterprises
- ✓ Unserious buyers
- ✓ Corruption within the privatizing unit
- ✓ High costs of the process
- ✓ Poverty among nationals
- ✓ Small market
- ✓ Political instability
- ✓ Political sabotage
- ✓ Ideological differences among government officials
- ✓ Under developed capital markets.

END