MARKING GUIDE

P220/2 ECONOMICS

UACE UNEB EXAMINATIONS NOV/DEC 2022

SECTION A

1 (a) (i) A public good - is one which when provided to a particular group of individuals becomes available for others to use at zero or no extra cost and consumption by one person does not reduce the amount available to other users. OR - it is a good which once provided, usually by the state, is available to all consumers at no extra cost.

While

An economic good - is a good which is scarce in relation to its demand and its consumption involves cost; it commands a price and consumers therefore pay money to acquire it / it's consumption by one person excludes others from it.

(ii) Examples of public goods in Uganda:

- National Security / defence
- Law and order
- Public/social infrastructure - Roads - Bridges - street lights. - Railways - Electric power-generation and distribution

(b) (i) Labour mobility refers to the ability of / the degree / ease with which labour moves either geographically or occupationally.

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(ii) Merits of labour mobility in Uganda;
- Reduces labour exploitation / enables labour to get (higher) income.
- Increases labour productivity / increases output.
- Reduces unemployment / enables labour to get (better) work.
- Enhances development of labour skills / efficiency.
- Promotes resource utilization hence avoidance of wastage.
- Increases labour supply / fills the manpower gap.
- Increases inflow of income from abroad / inflow of forex.
- Improves attitudes and values of labourers / fights prejudices and conservatism / Enhances harmony / (national) unity.
- Promotes technological (transfer and) development.

(Any 3×1 = 03 marks)

(c) Elements of tax compliance in Uganda:
- Registration of the tax payer.
- Filing tax returns.
- Proper record keeping / management - i.e. Keeping of books of accounts up to date / Proper documentation of all business transactions.
- Declaration that the information provided by the tax payer to the tax authority is correct and accurate.
- Timely tax payment.

(Any 4×1 = 04 marks)

(d)(i) A partial plan - is one that covers part / sector of the economy.
(01 mark)

While

Macro-economic plan - is a plan (by the central authority) that covers the entire / all sectors / most sectors of the economy.

ii) Ways of financing macro-economic plan in Uganda:
- Taxation financing / by use of tax revenue
- Debt financing / use of borrowed funds.
- Use of gifts and grants or donations / revenue generated through fund raising.
- Revenue from fines and penalties.
- Revenue from fees
- Market dues
- Royalties.
- Revenue from sale of government output / profit
- Revenue generated through privatisation / disinvestment(s).
- Surplus from gambling.
- Private financing / investment, as in indicative plans and public-private partnership.
- Revenue from rent.
- Revenue from rates
- Revenue generated through licensing.
- Road toll revenue.

(Any 2 × 1 = 02 marks)

(e) (i) The principle of comparative advantage as used in international trade:- states that a country should specialise in the production of a commodity in which it has the least opportunity cost.

(02 marks)

(ii) Ways in which the principle of comparative advantage is relevant to Uganda's economy:
- Uganda specialises in agriculture (and)
- Imports manufactured goods from developed/other countries.
- There is an element of free trade with countries of the EAC.
- Bilateral trade arrangements/agreements exist between Uganda and other countries.
- Wide-spread use of labour intensive technology. constant technology.

(Any 2×1 = 02 marks)

SECTION B

2. (a) Capital accumulation – is the process of increasing (a nation's) stock of capital (mainly through investment).
(02 marks)

(b) Factors that influence the rate of capital accumulation in Uganda:
- The level of income.
- The level of savings.
- The rate of inflation.
- The level of infrastructural development.
- The entrepreneurial ability.
- The existing capital (stock)/The available size of capital.
- The political atmosphere.
- The techniques of production.
- The population growth rate.
- The government policy on investment/The (level of) incentives to investors.
- The level of monetisation/commercialisation of the economy.
- The land tenure system.
- The market size.
- The degree of accountability.

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- The interest rate on capital / loans.
- The degree of conservatism / level of cultural rigidity.
- The level of capital inflow and outflow / the net capital flow.
- Consumption habits / time preference.

3:(a) A description of the structure of Uganda's economy:

It is a dualistic economy.
production at excess capacity by most firms.
The economy is mixed.
High population growth rate.
It is an open economy.
Small but growing industrial sector.
High level of under-employment and unemployment.
(Highly) dependent economy / economically dependent.
The available labour force is mainly unskilled and semi-skilled.
The economy mainly employs labour intensive technology.
Low level of infrastructural development.
predominantly agricultural.
(It) has a fast growing informal sector.

(b) An account for the need to change the structure of the economy:

To create employment opportunities.
To increase output hence economic growth.
To improve quality of output / To encourage production of quality goods.
To improve B.O.P. position / increase forex earnings.
To improve T.O.T.

To generate revenue for government (through taxation).
To encourage technological development.
To increase the level of savings / reduce the dependence burden.
To increase income.
To stabilise prices / To control inflation.
To promote self-sufficiency / To reduce economic dependence.
To promote (sectoral) linkages.
To develop / improve labour skills.
To reduce income inequality.
To increase (the level of) resource utilisation.
To promote balance in regional / sectoral development.
To promote entrepreneurship.

4. (a) Explaination(s) of the role of the agriculture sector to economic development of Uganda:
Creates employment.
Raises revenue to government (through taxation).
promotes economic growth.
Develops labour skills.
promotes industrial development.
utilises idle (land) resources.
(it is) promoting equitable income distribution.
promoting food security and ensuring a healthy population / reducing dependence on imported agric. products.
promoting balanced sectoral / regional development.
Generates foreign exchange (earnings).
promotes infrastructural development.

4. (b) Dangers of relying on the agriculture sector for Uganda's economic development:

- High level of seasonal, unemployment, Under-employment and Unemployment / limited employment creation.
- Low (tax) revenue to government.
- Low output hence low rate of economic growth.
- Leads to poor terms of trade.
- Leads to B.O.P. problems.
- Worsens economic dependence.
- price fluctuations / high level of structural inflation / fluctuations in incomes / fluctuations in foreign exchange earnings /
- Limits technological development.
- Leads to rural-urban migration and associated evils.
- Low quality of output.
- perpetuates income inequality.
- Worsens economic dependence.
- Retards the development of labour skills.

(Any 5 x 2 = 10 marks)

5 (a) Causes of open unemployment in Uganda:

- High population growth rate.
- Rural-urban migration.
- (Unfavourable) change in climate.
- Unfavourable political climate.
- Limited / lack of skills / poor education system / poor manpower planning.
- Technological development.
- Poor land tenure system.
- Discrimination in the labour market (on the basis of gender, religion, political affliation, ethnicity, nepotism, etc).

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- Ignorance of labour of existing employment opportunities.
- Decline in demand for products of some firms / Small market.
- Limited capital.
- Limited entrepreneurial skills.
- Retrenchment of workers to cut cost(s).
- Under-developed infrastructure.
- Physical and mental disability / incapacitation leading to residual unemployment.
- Changing jobs leading to frictional unemployment).
- Completion of contracts (leading to casual unemployment).

(Any 10×1 = 10 marks)

(b) Measures that can be taken to minimise unemployment problem in Uganda:

- Reform the education system / skill labour / under-take proper manpower planning.
- Diversify the economy.
- Control population growth rate.
- Modernise agriculture.
- Encourage use of appropriate technology.
- Stabilise the political atmosphere.
- Liberalise the economy.
- Reform / improve the land tenure system.

- privatise idle public assets.
- provide (tax) incentives to investors.
- Advertise jobs.
- Widen markets.
- provide affordable credit / loans for investment.
- promote industrialisation / diversify the economy.
- provide social programmes to persons with special needs.
- Develop infrastructure.
- Export surplus labour to countries with labour needs.
- provide skills for entrepreneurship.

(Any 10 x 1 = 10 Marks)

6. (a) (Stating) objectives of monetary policy in Uganda

- To promote investment / To influence the level and nature of investment.
- To attain full employment.
- To attain high economic growth rate.
- To attain and maintain equilibrium in the BoP position / To improve BoP position.
- To attain and maintain price stability / To control inflation.
- To promote growth, stability and diversity of the financial sector / banking sector.
- To ensure stability of (foreign) exchange rates.
- To influence interest rate(s).
- To manage the public debt.

(b) (Explaining) the factors that limit effective implementation of monetary policy in Uganda:

- Under-developed money and capital markets
- Ignorance of the population of open market operations).
- Corruption in the banking sector (especially in the use of selective credit control / margin requirement).
- political interference (in the lending activities of banks).
- Excess liquidity in commercial banks.
- High liquidity preference of the population.
- Dominance of (defiant) foreign owned banks.
- Few mainly urban-based financial institutions / commercial banks.
- Conflicting government objectives.
- Large non-marketed sector.
- Limited use of commercial banks -(due to) - lack of collateral security / ignorance of the population of services provided by commercial banks / unfavourable business expectations / low level of investment / credit unworthiness of borrowers / unpopularity of loans. . . . .

(Any 6X2 = 12 marks)

7. (a) Demand pull inflation - refers to a persistent increase in the (general / average) price level due to aggregate demand exceeding aggregate supply at full employment level of national income

Where-as

cost push inflation - is the persistent increase in the (general / average) price level due to rising average cost / rising costs of production.

(c) (An assessment of) the impacts of inflation in Uganda:

(i) Positive impact of inflation in Uganda:

- It is increasing government revenue.
- Encouraged investment / entrepreneurship.
- Creating employment opportunities.
- Encouraging innovations and inventions.
- Increased output hence economic growth.
- Promoting effort / hard work among citizens.
- Increased the level of industrialisation / encouraged import substitution.
- Led to increased labour supply.
- Increased the rate of utilisation of idle resources.
- Debtors gain
- Increased labour mobility.
- Monetised the economy.

(Any 6 × 1 = 06 marks)

(ii) Negative impact of inflation in Uganda:

- It is discouraging savings.
- Discouraging investment.
- Worsened B.O.P. position.
- Promoted rural-urban migration and associated evils.
- Led to unemployment.
- Discouraged hard-work (by low income earners) / bred apathy.

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— promoting tax evasion / low revenue to government through taxation.
— Creditors lose.
— Led to industrial unrest
— Led to social unrest.
— Leading to unpopularity of government.
— promoting promotion of low quality goods.
— Low / fixed income earners suffer / Caused misery among the poor.
— Encouraging production of low quality goods.
— Led to brain drain.
— promoting social vice, for example crime and immorality.
— Straining workers due to long hours of work.
— Made / making planning difficult.
— Led to collapse of some firms.
— Leading to inequitable income distribution / worsening the income gap.
— Led to capital outflow (*flight).
— Leading to loss of confidence in the local currency (as a store of value / medium of exchange / means of deferred payments).

(Any 10 x 1 = 10 marks)