

# ECONOMICS DISCUSSION QUESTIONS

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1 (a) (i) Distinguish between cross elasticity of demand and price elasticity of demand. (2 marks)

- **Cross elasticity of demand** refers to the measure of degree of responsiveness of quantity demanded of a commodity to changes in price of other related commodities

While

- **Price elasticity of demand** refers to measure of degree of responsiveness of quantity demanded of a commodity to changes in its own price.

(ii) Given that an increase in the price of commodity A from shs.25,000/= to shs.40,000/= resulted in a change in quantity demanded of commodity B from 750 to 800 units, Calculate cross elasticity of demand.

$$\begin{aligned} CED &= \frac{\Delta Q_B}{\Delta P_A} \times \frac{P_A}{Q_B} \\ &= \frac{800-750}{40000-25000} \times \frac{25000}{750} \\ &= 0.1 \end{aligned}$$

(b) (i) Differentiate between Marginal propensity to consume and marginal propensity to save.(2 marks)

**Marginal propensity to consume** refers to the proportion of additional income that is consumed

while

**Marginal propensity to save** refers to the proportion of additional income that is saved.

# Mention any two reasons for saving in Uganda. (2 marks)

The two reasons for saving in Uganda are;

- To promote investment levels
- To cater for unforeseen circumstances
- To finance domestic spending

Differentiate between appropriate technology and intermediate technology.  
(1 mark)

- **Appropriate technology** refers to the method of production which is socially and economically suitable for a given society or economy.

While,

- **Intermediate technology** refers to the method of production which is neither so advanced nor so primitive.

(ii) Give any two arguments for adopting intermediate technology in Uganda. (3 marks)

**The two arguments for adopting intermediate technology in Uganda are;**

- Improves on labour productivity
- Promotes acquisition of skills
- leads to better resource utilization .
- leads to creation of employment opportunities
- Helps in saving forex because it uses local raw materials

(d) (i) State the law of comparative cost advantage(1 mark)

- **The law of comparative advantage** states that ,given two countries and two commodities, a country should specialize in the production of a commodity in which it incurs the least opportunity cost in comparison with another country.



Mention any three factors that limit the application of the comparative cost advantage theory in Uganda. (3 marks)

**The three factors that limit the application of comparative cost advantage in Uganda are;**

- Uganda participates in multilateral trade
- Existence of international restrictions in international trade
- High transport costs
- Currency restrictions and changes in exchange rates
- Uganda does not experience constant costs like the theory assumes
- Technology is not constant as it keeps changing
- Preference of money trade to barter means of trade

What is meant by economic development planning? (1 marks)

- **Economic development planning** refers to deliberate and continuous government effort to influence, direct and control major economic variables such as investment to achieve economic objectives in a country in a given period of time.

State any three factors that affect the implementation of development plans in Uganda.(3 marks)

- **The three factors that affect implementation of development plans in Uganda;**
  - Availability of funds
  - Availability of data
  - Degree of responsiveness of the private sector
  - Degree of political interference
  - Level of government commitment
  - Rate of inflation
  - Degree of dependence on external factors
  - Level of accountability
  - Natural factors
  - Level of infrastructural development
  - Level of conservatism

- SECTION A PART 2

Differentiate between "resale price maintenance" and "reserve price".(02 marks)

*Resale price maintenance refers to where the manufacturer or producer sets the price at which a commodity is to be sold to the final consumer.*

*While,*

*Reserve price refers to the minimum/lowest/least possible price a producer is willing to accept to sell or exchange his commodity.*

Give any two merits of resale price maintenance. (02 marks)

- *The two merits of resale price maintenance in an economy;*
- *Reduces stiff competition between small scale and large scale retailers*
- *Ensures stability in market prices*
- *Saves time that would be wasted in bargaining*
- *Enables producers to calculate easily the revenue*
- *Reduces consumer exploitation in form of increased prices*

i) Define the term product differentiation. (01 mark)

***Product differentiation refers to the act by producers to make similar commodities appear unique to appeal to target markets and distinguish them from their competitors.***

ii) Mention any three forms of product differentiation in an economy. (03 marks)

***The forms of product differentiation in an economy are;***

- ***By branding***
- ***Through packaging***
- ***Use of different colours***
- ***Using design and trademarks***

- What is the meaning of 'marginal propensity to import'? (01 mark)

*Marginal propensity to import refers to the proportion of additional income that is meant for importation.*



(ii) Calculate the final equilibrium national income given that initial equilibrium National income is €200 billion, increase in investment expenditure is €10 billion and the marginal propensity to consume is 80%. (03 marks)

*Final equilibrium level = Initial equilibrium level + (multiplier x change in investment)*

$$\begin{aligned}\text{But multiplier} &= \frac{1}{1-MPC} \\ &= \frac{1}{1-0.8} \\ &= 5 \text{ times}\end{aligned}$$

- *Thus, final level of income = € 200 +( 5 x € 10)*  
*= 200 + 50*  
*= € 250 billion.*

i) Define the term foreign aid. (01 mark)

***Foreign aid refers to the international transfer of resources to a country either directly from one country to another or indirectly from through international agencies.***

ii) Give three motives of giving aid to developing economies. (03 marks)

***The three motives of giving foreign aid to developing countries are;***

- ***For humanitarian reasons***
- ***To foster international relations***
- ***To dictate political policies in the recipient countries***
- ***To extend social and cultural ideologies***
- ***To consolidate their economic and commercial interests***
- ***To create employment opportunities for their nationals***
- ***To extend military influence in developing countries***

- e i) What is meant by 'comprehensive planning'? (01 mark)
- ***Comprehensive planning refers to planning which covers all sectors and areas of the economy.***
- ii) State three challenges faced in the implementation of comprehensive plans in developing countries. (03 marks)

***The three challenges faced in implementation of comprehensive planning in developing countries;***

- ***Inadequate funds***
- ***Inadequate data/information***
- ***Natural calamities***
- ***Interference by politicians***
- ***High rates of inflation***
- ***High corruption levels***
- ***High population growth rates***
- ***Poor infrastructures***
- ***Limited good will by the people***
- ***Limited labour skills***
- ***Bureaucratic delays/redtape***

# SECTION B

(a) Why may the supply of a commodity not increase despite increase in its price? (10 marks)

- ***The following are the reasons why supply may not increase despite increase in its price;***
- ***Supply curve of labour due to preference of leisure to work, presence of target workers, effect of old age.***
- ***Supply rigidities brought by drought, political instabilities***
- ***Supply of land cannot be increased ,since it is a fixed resource***
- ***Expectation of future price changes( speculation) makes producers to put less on market to gain more profits in future***
- ***Supply of perishable goods. More is supplied immediately after harvest***
- ***Exhaustion of raw materials. Quantity supplied may not increase because producers have no requirements to produce final goods.***
- ***Existence of commodities supplied by government. The government may decide to supply essential commodities to consumers at fair prices to improve standards of living.***

(b) Discuss the measures that can be taken to increase supply of a commodity in an economy. (10 marks)

***The following are measures that can be taken to increase supply of a commodity.***

- Increase price of a commodity
- Improve technology levels
- Expand market size
- Ensure political stability
- Improve workers' fringe benefits
- Offer subsidies to producers
- Modernise agriculture to increase agricultural supply
- Improve infrastructures
- Offer investment incentives to producers
- Avail affordable loans to investors
- Etc.

(a) Distinguish between the output approach and income approach as used in economics. (04 marks)

Output approach involves adding up money value of all final goods and services from all productive activities of the economy in a year,

While

Income approach involves adding up adding all incomes earned by factors of production in a particular period of time usually a year.

(b) Explain the factors that influence the Gross Domestic Product in developing countries.  
(16 marks)

The following are factors that influence gross domestic product in developing countries;

- The size of the market
- Level of exploitation and utilization of resources
- Level of savings
- Level of entrepreneurial ability
- Population growth rates
- Government policy of taxation and subsidization
- Political climate
- Level of labour skills
- Rate of inflation
- The nature of land tenure system
- Size of the monetary/subsistence sector
- Level of development of infrastructure
- Level of technology
- Level of corruption