1. **(a) (i) YED = <u>percentage change in quantity demanded</u>**

Percentage change in the income of consumers.

30 - 100 / 40000 - 20000 x 20000 / 100

= - 0.7

= 2mks

(ii) The commodity is inferior

- Income elasticity is negative
- Quantity demanded decreases with an increase in income.

= 2mks

(b) (i) Production is a process of transforming raw materials into forms that yield satisfaction at particular time to the customer at a convenient place. **= 1mks**

(ii) Any three agents of production in the country

- Labor -Land
- Capital
- Entrepreneurship
- Organization

Any 3 x 1 = 3mks

(c) Any four factors that have given rise to monopoly in the country

- **Legal barriers** comprising copyrights, licenses, patents, need for insurance
- **Product differentiation**
- **Red tape or bureaucracy** can prevent a new entrant into the market
- **Natural monopolies.** This occurs due to the ownership of resource such as power to control a natural resource or factor of production such as mineral deposits, fresh water, historical site for tourism
- **Person talent.** Talented individuals become specialists and therefore become monopolists when they emerge as the best suppliers of service e.g. athletes, musicians, footballer, dancers, designers etc.
- **Spatial monopoly.** This occurs when one become a monopolist because the prospective competitors are far. Or differences between producers of similar products

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- **Product differentiation:** producers endeavor to give distinctions of their products by way of design, labeling, trade mark, brand names, packaging thereby becoming monopolists in their respective brand and design such phone service providers such as MTN, Airtel.
- **Advantages of large scale production which requires huge capital base.** This makes firms capable outcompeting others hence emerging as a single supplier of the product.
- **Government policy.** State or statutory firms e.g. examination bodies, electricity bodies enjoy state protection and hence emerge as single suppliers of their products and services.
- **Small market.** too small market may prevent entry of other competitors
- Local producers tend to enjoy monopolistic conditions by being protected from foreign competitors (imports) through heavy tariffs by government e.g. Mukwano group of companies in Uganda for soap, oils and laundry products.
- **Technical conditions such as standards and/or regulations.** In most cases, the prospective competitors fail to meet minimum technical requirement. This leads to technically competent firms to enjoy monopolistic conditions such as civil engineering contractors.
- **Entry restrictions.** Certain professional organizations tend to maintain difficult entry requirements e.g. accountancy, medical, legal professions keep their service in monopolistic situations
- The amalgamation of firms to form monopolies among themselves reduce the degree of competition e.g. SCOUL.
- **Reputation.** A producer emerge as monopolist once his products have acquired high reputation because of high quality e.g. publisher of books.
- **Long period of training especially for professionals.** In the short run when it is impossible to train and acquire enough qualification it leads to monopolies of the already qualified ones.
- high starting cost make an entity a single seller of goods
- **Technological advantages and innovation** may sometimes result in monopolistic markets.
- **Manipulation:** A company wanting to monopolize a market may capture various kinds of deliberate action to exclude competitors or eliminate competition. Such steps include collusion, lobbying governmental administrators, and force
- **High Sunk costs;** costs that cannot be recovered when a business exist the market such advertising costs and specialist machinery.
- **Heavy advertising,** price cuts by existing companies can scare a new entrant into the market

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- **Use of limit pricing policy/aggressive price wars.** A firm sets price for output which is very low to discourage the entry of new firms in production of the same commodity, the existing firm becomes a monopolist.

Any 4 x1 = 4mks

(d) (i) Underdevelopment refers to the low level of development characterized by low real per capita income, wide-spread poverty, lower level of literacy, low technology, low life expectancy and underutilization of resources **1mks**

(ii) Features of underdevelopment include the following;

- Dominated by agriculture
- Low levels of income
- High population growth rate
- Low level of technology
- Existence of dualism
- Overdependence on external resource and trade
- High illiteracy rate
- Low life expectance due to poor living conditions
- Low technology
- Wide spread poverty
- debt crisis
- rural-urban migration
- political instability
- excess capacity resource utilization
- low level of entrepreneurship
- low levels of diversification
- insufficient capital

Any 3 x 1 = 3mks

(e) **State any four roles of intermediate technology (4marks)**

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- exploitation of idle resources
- creation of linkages in production
- development of skills
- reduction of foreign dependence
- rural development
- fair income distribution

Any 4 x1 = 4mks

SECTION B.

2 (a) There are three ways of measuring national income which are;

NB: A candidate is supposed to mention the method and explain the method and not forgetting to include the time period

- **Income approach**. **(1 mark)**
- In this approach, national income is obtained by adding up all the total money value of all incomes earned by individuals in an economy which contributed to the production of goods and services in a year. We add up the incomes earned in form of profits, rent, wages, salaries and interest less transfer payments.
- National income = wages + salaries + rent + interest + profits-transfer payments.**(1 mark)**

The expenditure approach. **(1 mark)**

In this approach, national income is obtained by adding up all the total amount of money spent on final goods and services by all sectors of the economy in a year.

We therefore add up expenditure made by all sectors of the economy in form of-

- Consumption expenditure by households (C)
- Investment expenditure by business firms (I)
- Government/public expenditure on goods and services (G)
- Net foreign expenditure. It is equal to exports minus imports (X-M).

This excludes expenditure on output from other countries by nationals.

National income= C+I+G+(X-M). **(1 mark)**

The product (output) approach. (1 mark)

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

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OR

It involves adding up the value affed to output at each stage of production in a given year.**(1 mark)**

Any 6 x 1 = 6marks

(b) Limitations (Problems) of using income approach in estimating national income

NB: A candidate should mention a point and then explain or show how it's a problem to score 2 marks on a point.

- Lack of information. Many people are self-employed and they are not willing to declare their income. This leads to under estimation of national income.
- It is difficult to estimate incomes earned from abroad
- Transfer payments are difficult to identify and yet when included lead to double counting.
- Depreciation incurred during the year is difficult to determine yet an allowance for this must be included when estimating national income. Depreciation represents the cost of production since the asset must be replaced when it becomes completely won out.
- It is also difficult to identify incomes from illegal activities since they are not supposed to be included in estimating national income
- Shortage of qualified and motivated manpower to compile data

Limitations (Problems) of using the expenditure approach

- Government utilities like roads, security is usually subsidized and thus it is difficult to determine their actual value.
- Net exports and income earned from abroad are not easy to determine. For example foreign exchange from smuggled output is unknown; some income earned abroad is not declared and therefore not recorded.
- There is insufficient funds and facilities to compile data
- Illegal activities e.g. prostitution, gambling, smuggling generate income which is difficult to measure.
- The effect of inflation is difficult to adjust and is likely to be misinterpreted to mean increase in output.
- It is difficult to differentiate between expenditure on final and intermediate goods yet it is only expenditure on final goods which must be included. This is because people do not keep records.
- Lack of information on private consumption and investment expenditure
- Difficult to identify expenditure on transfer payments which is supposed to be excluded when estimating national income

Limitations (problems) of using the output approach

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- Non-monetary output; commodities which are not taken to market are difficult to give value e.g.
- subsistence output, work done by house wives, leisure foregone when work is done, houses built by owners.
- It is difficult to determine when output was produced e.g. perennial crops.
- The effect of inflation is difficult to adjust and is likely to be misinterpreted as increase in output.
- There are difficulties of determining what to include and what to exclude (subsistence output) and determine methods of valuing different items.
- Lack of information on what is produced by all enterprises or sectors within a year in the economy
- There is problem of double counting due to failure of distinguishing between intermediate goods and final goods. This results into counting the value of the item more than once hence over estimating national income.
- Problem of inventories. Inventories are goods produced but not sold in the previous period. The value of such goods is not supposed to be included when estimating the national income of the current year.

Any 7 x2 = 14mks

3 (a) Investment multiplier is the number of times a given change in investment expenditure multiplies itself to generate a final change in income. **2mks**

Whereas;

Export multiplier is the number of times a given in export earning multiplies itself to generate final change in national income. **2mks**

(b) Factors limiting the effective operation of the investment multiplier in the country

- **High degree of income inequalities.** In developing countries, there are few rich people with high marginal propensity to save and low marginal propensity to consume. The majority of the people are low income earners. This reduces the aggregate demand hence low levels of investment.
- **Limited resources for investment**. In developing countries, there is limited capital and other resources like raw materials necessary for investment and this limits the multiplier process.

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- **High population growth rates**. This results in high dependence burdens and low savings hence low levels investment in developing countries.
- **Limited credit facilities for investment.** In developing countries, there are few financial institutions and they are concentrated in urban areas. Most people do not have collateral security and therefore cannot access loans from the banks. This leads to low levels of investment.
- **Limited entrepreneur skills**. In developing countries, there is a limited number of entrepreneurs with the required skills to take on risks and increase investments. This limits the multiplier process.
- **Poor social and economic infrastructure**. Existence of poor social and economic infrastructure in form of poor roads, poor health facilities and poor communication networks discourage investments in developing countries.
- **Limited domestic and foreign markets.** In developing countries; there is limited market for goods and services which discourages investment hence limiting the multiplier process.
- **High levels of corruption and mismanagement of funds**. The resources meant for investment are used for personal gains and some are mismanaged due to limited skilled personnel. This limits investment and the multiplier process in developing countries.
- **Overdependence on imported technology**. The use of inappropriate technology imported from developed countries in form of capital intensive technology leads to high levels of unemployment. This limits the number of people involved in production activities hence low levels of investment
- **High levels of liquidity preference.** Most people in developing countries prefer to keep their wealth in cash or near cash form instead of investing them in income generating activities. This limits the multiplier process.
- **Existence of the large subsistence sector in developing countries**. There are a limited number of economic activities and this leads to low incomes which cannot support meaningful investments. This limits the multiplier process in developing countries.
- **High levels of political instabilities**. These create a poor investment climate which discourages the potential investors hence limiting the multiplier process.
- **Unfavorable government policies in form of high taxation.** These together with other bureaucratic processes which are not clear discourage investments hence limiting the multiplier process.

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- **Poor land tenure systems.** The system of ownership and use of land is mainly based on individuals and makes it difficult for the government to allocate land to potential investors. This limits investments and the multiplier process in general.
- **Unreliable natural factors** such as pests and animal disease, drought etc. directly affect agricultural export and increase unemployment hence affecting investment multiplier process
- **Protectionism** by most developed countries that limit the countries export leading to low foreign exchange earning production

Any 8 x 2 = 16mks

4 (a*)* **Uganda's economy is characterized by the following**;

NB. Qualifiers (dominated,mainly,is,has) are necessary when giving your points and do not speculate

- **It is dominated by the agricultural sector (predominantly subsistence in nature).** Majority of Uganda's population is employed in the agricultural sector. It is also the major source of food and foreign exchange earner for the country.
- **It has small but growing industrial sector**. Most of the industries are small and mainly concentrated in urban areas. The few large industries are owned by foreigners. The industrial sector contributes less than 15% of GDP.
- **It is a mixed economy.** There is existence of both public and private ownership and allocation of resources. Investments which require huge capital are owned and controlled by the government.
- **It is a dual economy.** A dual economy is one where there is co-existence of two contradicting sectors where one is modern and desirable while the other is traditional and undesirable. Uganda is technologically, socially, economically and regionally dualistic in nature.
- **It is an open economy.** Uganda interacts with other countries in terms of trade. It exports to and imports from other countries. Uganda's exports are mainly primary products while the imports are mainly oil products, capital and manufactured' goods.
- **It is mainly a dependent economy.** Uganda greatly depends on other countries in terms of trade and other resources for survival. It mainly depends on international trade as a source of imports.
- **It is characterized by unskilled and semi-skilled labor force.** Uganda's labor force is characterized by high levels of illiteracy due to low levels of education and lack of experience for particular technical jobs.

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- **It is mainly characterized by high population growth rate**. This is due to high fertility rates and lack of effective family planning programs. This leads to high dependence burden and pressure on social services especially in urban areas.
- **There is wide spread unemployment and under employment.** This is due to limited production, investment and other employment creating activities resulting from the high degree of resource underutilization.
- **It is mainly characterized by poorly developed and inadequate social-economic infrastructure**. This is in form of poor roads, poor health and educational facilities and inadequate power supply which limit investment in the country.
- **It is mainly characterized by poor entrepreneurship.** Uganda's economy is mainly comprised of incompetent entrepreneurs who lack the required skills to start and sustain business enterprises. This leads to resource misallocation and mismanagement.
- It is characterized by high imports and low exports due to low production
- It is characterized by excess capacity (underutilization of resources in several sectors)

Any 10 x 1 = 10mks

(b) Factors responsible for underdevelopment in the country include;

A candidate should state and explain the point;

Internal factors

- **High population growth rates.** This discourages savings and investment due to high dependence burden which leads to a reduction in the per capita income hence low standards of living.
- **Vicious circle of poverty.** Developing countries are imprisoned by short comings arising from low incomes, low savings that lead to low investments and consequently low productivity and then back to low incomes.
- **Limited skilled manpower.** This is reflected in the limited number of people with critical entrepreneurial skills and knowledge. This is due to the poor colonial education system which aims at white color jobs making development of technical skills difficult yet they are required in the exploitation of natural resources that can assist in enhancing economic growth and development

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- **Poor and inadequate social and economic infrastructure.** This is reflected in form of poor transport network, few power generation plants and limited financial institutions. This makes it difficult to produce and market the produced goods and services.
- **Low levels of technology.** Most developing countries use traditional, out dated and inefficient technology. This leads to resource underutilization and production of low output and ·of poor quality hence under development.
- **Economic instabilities.** These are in form of inflationary tendencies and exchange rate fluctuations and agricultural price fluctuations. Inflation increases the cost of production hence underdevelopment.

Any 10 x 1 = 10mks

5. (a) Causes of agricultural price fluctuations in your country

NB. A candidate should clearly show an element of prices increasing (high prices) and falling (low prices) in the process of explaining the points given. Balanced explanation must be given showing an upward trend and downward trend in prices.

- **Perishability and difficulty of storage** this forces farmers to sell at any available price e.g. Tomato, cabbage
- **Bulkiness of products** makes mobility of products to areas of high price difficult.
- **Long gestation period of agriculture products** restricts supply when prices are high.
- **Fluctuations of yield.** High yields leads to low prices and low yields lead to high prices
- **Low technology** limits value addition to increase demand
- **Technological advancement** in developed countries has promoted the raw material saving methods reducing demand for agricultural output.
- **Growing competition from synthetic substitutes**
- **Agricultural products are used as mere inputs industrial products** making absorption of excess supply leading to price instability.
- **The poorly planned production**
- **Dependence on natural factors** such climate for production that are not predictable
- **The price inelastic demand for agricultural product**s. a big change in price brings about a small change quantity demanded.

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- **Weak bargaining position on world market;** prices of agricultural products are dictated by importers in MDCs.
- **Lack access to market information**
- **Speculations of demand**
- **Change in the import-export policy;**
- **Inflation**
- **Seasonal nature of demand for certain products;** such as flowers in celebration seasons.

- **Any 10 x 1 = 10mks**

(b) Measures that should be taken to solve the problem of agricultural price fluctuations

NB The candidate should the point and use the word use a word 'should' in the explanations

- **Buffer stocks.** The government should buy up part of the supply when output is in excess, store this surplus and later sells it to the consumer in times of reduced supply.
- **Stabilization fund**. The government should stabilize a stabilization fund through marketing boards as this can maintain or increase prices of agricultural products, depending on world market prices. If profits are made, they are saved and used to stabilize prices and incomes of the farmers.
- **Diversification.** A variety of agricultural activities should be introduced e.g. crop farming, poultry, animal husbandry etc. to reduce over dependence on one or a few sources of agricultural income in a bid to stabilize farmers' income.
- **Encourage formation of cooperatives** should be encouraged to bargain fair prices
- Introduce irrigation schemes to ensure continuous supply of agricultural products.
- **Stability in prices of agriculture** should be attained by improving transport system to enable easy marketing
- There storage facilities should be to improved, developed and expanded so as to accommodate excess output in agriculture.
- **Price control**. Government should establish the minimum prices for agricultural output so as to protect producers.
- **Market expansion**. Government should expand agricultural output market through economic integrations
- **Strengthening international commodity agreements**. Countries should organize themselves for the case of export crops and formulate policies such as fixing quotas and price for agricultural exports. For example Uganda is a member of international coffee agreement.

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- **Modernization of agriculture by improving technology**. This is through use of fertilizers, irrigation practices, mechanization to reduce over reliance on weather and other natural factors to stabilize supply and price and increase the quality of agricultural products.
- **Expand market through encouraging economic integration**. This helps to absorb surplus agricultural output in expanded foreign markets such as EAC, COMESA. This leads to stable and higher prices.
-
- **Use of price support.** This is where the government buys surplus output on the market arising from fixing a minimum price with the aim of supporting producers. Farmers sell their products at the market price and then present their receipts to the government which pays them the difference between the market price and the price which government considers being realistic to farmers.

Any 10 x 1 = 10mks

6(a)

The theory states that food production will not be able to keep up with growth in the human population, resulting in disease, famine, war, and calamity.

Observations made by Malthus

- According to Malthus, population grows at a geometric rate for example at 2, 2^2, 2^3, 2^4 etc.
- Food supply grows at arithmetic rate for example, 2, 4, 6, 8, etc.
- He observed that population growth depends on food supply, i.e. when food supply increase population growth increases
- He explained that time would come when the population growth rate would equal to food supply and if the population exceeds food supply there will be suffering and starvation.
- He attributed the increasing poverty, low wages and unemployment of that time to increase in population.
- He advises a need for world intervention to control population growth using preventive measures such as late marriage and family planning.
- He observed that if attempts are made to improve food supply, health care, shelter, etc. population growth may increase since people feel contented.
- He discourage foreign aid in catering for increasing population because people would escalate basing on this aid **= 6mks**

(b)

A candidate <u>must state the extent</u> to which the theory is applicable to uganda

To a small extent the theory is applicable to the country as seen below;

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- The theory suggested some measures to population growth such as family planning late marriage which are being implemented in Uganda
- Uganda are concerned about the danger of over population of which Malthus was mindful
- There are low wages, poverty, and unemployment in Uganda that could have resulted from high population growth.
- He predicted starvation, suffering and death and unemployment in Uganda that have their origin from over population.
- He assumed that land is fixed in supply. In Uganda, land productivity is fixed due to poor technology.
- He predicted mass starvation, suffering and death. These have been experienced in Uganda in one way or another, for example there have been several ways in Uganda since independence.
- In some parts of Uganda it is true that population growth rate is very high like in Kigezi and Bugisu, low of diminishing return is in operation hence justifying fears Malthus.
- In Uganda, it is true that population is growing at a faster rate than food production. This justifies Malthus observation that food grows at an arithmetic rate while population grows at geometric rate.
- He prophesized that an improvement in health care and food supply would lead to an increase in population. This is true in Uganda where immunization programs have led to an increase in population due to the fall in infant mortality rate.

However, to some extent, the theory is not applicable to Uganda due to the following facts;

- He assumed that resources e.g. land are fixed and therefore food production cannot increase faster than population but ignored that the quality of resources can be improved.
- He ignored the fact that improvement in technology lead to increase in food production with use of agricultural mechanization there in an improvement of food production in Uganda
- The ignored the fact that continuous supply of food can obtained from international trade.
- He assumed that food is not the only determinant of population growth; there are other factors such as immigration, levels of education, and cultural beliefs.
- Foreign aid may not necessarily increase population in Uganda, because not all foreign aids are used in food production
- Malthus never indicated the time when the population trap would occur which means the theory is in waiting for the reality to occur.

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- In spite of population increase, the standards of living of people have been raising in Uganda which is contrary to Malthusian theory due to improved education and healthy facilities.
- The modern medicine and public health programs have reduced the death rate and therefore population increase does not show a define relationship with income per capita.
- The theory was developed in Britain and has never been experimented in Uganda and probably not substantial.

Any 7 x 2 = 14mks

7. (a) **Imported inflation** is the one which results from importing goods or raw materials from countries or regions experiencing inflation. **2mks**

Whereas

Demand pull inflation is the persistence increase in the general price arising from excessive aggregate demand for goods and services over aggregate supply. **2mks**

(b) To a less extent, In Uganda the following conditions increase the cost of production

- High wages and salaries
- Increasing prices of factor inputs such as cost of raw material
- Increasing cost of machinery
- High cost of transport/fuel
- High costs of borrowing
- High level of taxation
- Natural disasters, such as floods, earthquakes, or fires,; if a large disaster causes unexpected damage to a production facility and results in a shutdown or partial disruption of the production chain, higher production costs are likely to follow.

However to a large extent, there other causes of inflation which include,

- **Uganda being an agro-based economy**, it has not generated adequate investment to boost other productive sectors. This has been due to inadequate inputs like fertilizers, ploughs, etc. which has caused scarcity of production leading to an increase in prices
- **Has climate such as draught,** too much rain lead to food scarcity and raw materials causing increases in their prices
- **High government expenditure** on unproductive activities increases money supply leading to increased prices
- **Trade embargoes** cause scarcity of imports leading to increase in prices of imports
- **Frequent devaluations** tend to cause a rise in prices of import goods and services.

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- **Depreciations of machinery** cause a reduction in production leading to scarcity of goods and hence high prices of goods
- **Frequent monetary expansion**, which is not backed by production, has always caused excessive demand and high prices of products.
- **Population pressures.** High population growth rate exerts pressure on few commodities forcing prices to sour.
- **High marginal propensity to import** increase the demand and cost of foreign exchange and prices of imported commodities.

Any 8 x2 = 16mks

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