**SOLUTION TO UEBETA TERM ONE ECONOMICS SEMINAR QUESTIONS HELD AT CALTEC ACADEMY MAKERERE ON 07/04/2024.**

**PART ONE**

1a(i**) Opportunity cost curve,** is the locus of points/ curve showing all possible combinations of two commodities that can be maximumly produced by a country when all resources are fully and efficiently utilized at a given level of technology.

**(ii) Factors that make the transformation curve to shift in wards;**

- Depletion of natural resources
- Decline in technology
- Decline in labour skills
- Decline in entrepreneurial skills
- Capital out flow in the country

**b(i) Band wagon,** this is the demand for goods or services in order to look like others in the group or society i.e. desire for commodities after observing others using them. e.g. fashions and hair styles/ housing estates

**While**

**Snob effect,** this is demand for commodities by high income earners to show their economic status.

**(ii) Reasons that may lead to an increase in demand of a commodity when it's price increases;**

- When it is a good of ostentation
- Incase of an inflationary period
- In case of increase in quality
- In case the consumer expects the price to increase further
- When its a giffen good

c(i) **Consumer sovereignty,** this is an idea in a free market economy where the consumer takes an upper hand in the making of major economic decisions eg where the consumer influences decisions on what to produce, how and for whom to produce etc

**(ii) Role of price in a free market economy**

- Determines what to produce
- Determines how to produce
- Determines for whom to produce
- Determines when to produce
- Determines where to produce from
- Determines how much to produce
- Guides consumers when making choice of which goods to buy
- Ensures efficient allocation of resources
- Provides an incentive for economic growth
- Ensures production of better quality products due to competition among producers

**d(i) Lumpsum tax,** this is a tax imposed on a monopolist regardless of the level of output produced.

While

**Specific tax,** this is a tax imposed on every unit of output produced by a monopolist.

**(ii) Effects of a lumpsum tax on a monopolist;**

- It increases average cost.
- Marginal cost, output and price remain constant.
- It leads to a decrease in abnormal profits.

**(iii) Elements of tax compliance;**

- **Business registration,** this should be done in time and accurate information provided to the tax authorities. After registration a tax payer/business is issued with a TIN (Tax payer identification number which is a key identifier of a tax payer. A TIN is a unique number allocated to the tax payer by URA to enable them meet their tax obligations.
- **Record keeping,** the taxpayers are required by law to keep records of business transactions ie income and expenditure for taxation purposes.
- **Declaration,** this involves providing correct and accurate information about the transactions to URA for further processing.
- **Filling returns**, this involves submitting information about the business for the respective period on a prescribed form to URA for the purpose of determining tax payable.
- **Timely payment taxes,** this involves paying the correct amount of tax and it should be paid in time.

**e(i) Perspective plan, t**his is a long term plan in which long term targets are set in advance for a period of 10 years and above eg a plan of 20 years.

**(ii) Prerequisites of a good economic development plan;**

- Availability of enough reliable statistical information
- Clearly stated objectives of planning
- Availability of enough capital
- Efficient administration which is not corrupt
- Availability of enough skilled labour in planning
- Adequate political will
- Enough public participation and support
- Political stability

**f) Reasons why a demand curve has a negative slope;**

- Substitution effect
- Price effect
- Real income effect
- Presence of low income earners
- Many uses of a commodity
- Law of diminishing marginal utility

**g(i)Change in supply,** an increase or decrease in amount of a commodity supplied due to a change in other factors that affect supply when price is held constant**.**

**While**

**Change in quantity supplied, a**n increase or decrease in the amount of a commodity supplied due to a change in price of a commodity when other factors that affect supply are held constant.

**(ii) Causes of a regressive supply curve of labour;**

- Presence of target workers
- High desire/ preference of leisure to work.
- Fear of progressive taxation
- Reduction in real income due to inflation
- Political and cultural factors

**h) (i) Factor specificity, t**he extent to which a factor of production is restricted to a particular use.

**While**

**Factor mobility; r**efers to the ease with which a factor of production can move from one occupation or geographical area to another.

**(ii) Horizontal occupational mobility of labour;** this is where labour changes from one occupation to another but at the same grade in different organizations eg a teacher moving from one school to another but remains a teacher.

**While**

**vertical occupational mobility of labour;** this is where labour changes from a lower grade job to a higher grade job eg from being a director of studies to becoming a headteacher.

**I (i) Norminal percapita income,** refers to the average income of the population valued at current year prices.

**While**

**Real percapita income,** refers to the average income of the population valued at base year prices.

**(ii)Weaknesses of using per capita income to compare standards of living in a country over time**

- It does not consider changes/variation in income distribution in economy overtime.
- It does not consider changes/variations in the quality of goods produced in an economy overtime.
- It does not consider the changes/variation in the economic data/statistical data in an economy over time.
- It does not consider the changes in tastes and preferences in an economy over time.
- It does not consider changes in the price level / inflation in a country overtime.
- It does not consider changes in the amount of leisure foregone in an economy over time.
- It does not consider changes in the pattern of government expenditure in an economy over time.
- It does not consider changes in the size of the subsistence sector over time.
- It does not take into account the composition/types of goods sold in an economy overtime.
- It does not take into account changes in the political climate in an economy overtime.
- It does not take into account changes in the level of taxation on income/wealth overtime.
- It does not take into account changes in the level of employment/unemployment level in an economy overtime.
- It does not take into account changes in the working conditions such as occupational hazards in an economy over time.

**PART TWO**

2) **Techniques of handling Economics questions for best results- Mr Jaggwe Ronald - Trinity College Nabbingo.**

**3(a) Multiplier,** refers to the number of times an initial change in expenditure multiplies itself to give a final change in income ie $\frac{\Delta}{\Delta E}$

**While**

**Accelerator (principle),** refers to the number of times an initial change in consumption multiplies itself to give a final change in investment ie $\frac{\Delta I}{\Delta C}$

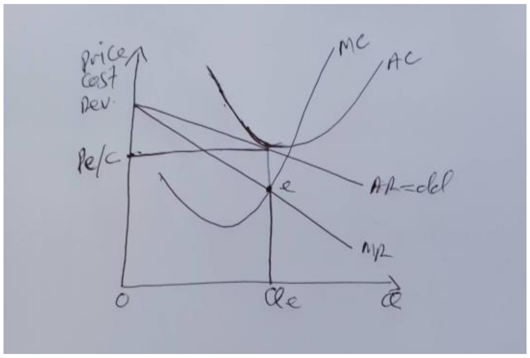
**(b) Factors that limit the multiplier process in developing countries.**

- Small markets
- Political instability
- Low levels of accountability
- Poor state of infrastructure
- Low population growth rate
- Low income levels
- Small level of capital stock

- High rate of inflation in the economy
- High level of capital out flows

4(a) How does a firm in the following market structures determine output, price and profits in the Long run

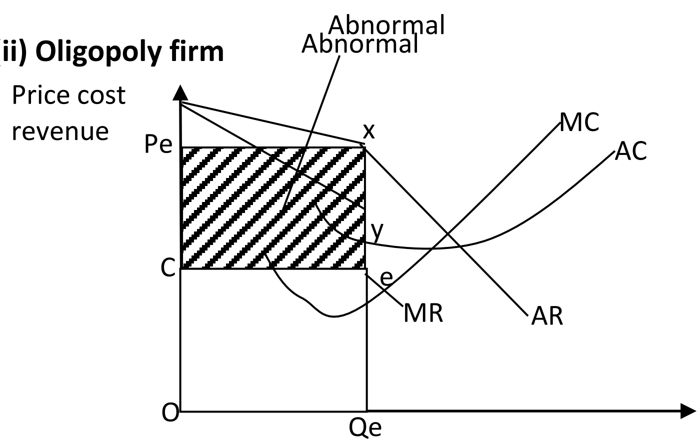
**(i) Monopolistic firm**




**From the diagram above;**

- The firm's output is determined at a point where MC= MR.
- The price is determined at a point where the output line meets the AR- curve.
- The cost is determined at a point where the output line meets the AC- curve.
- The firm makes normal profits.

**(ii) Oligopoly firm**




**From the above diagram;**

- Output is determined at a point where MC= MR.
- The cost is determined at a point where the output line meets the AC-curve.
- The price is determined at a point where the output line meets the AR-curve.
- The firm makes abnormal profits equaling to CPeXY

**b (i )Advantages of oligopolistic markets in Uganda;**

- Promotes price stability
- Widens consumer choice
- Leads to production of high quality goods
- Creates more employment opportunities
- Contributes to high government tax revenue
- Consumers gain from non price competition

- Abnormal profits are enjoyed both in the short run and in the long run.
- Leads to innovations and inventions contributes to economic growth by increasing output.
- Low prices to consumers

**(ii ) Disadvantages of oligopolistic markets in Uganda;**

- Leads to limited employment opportunities
- Distorts consumers' choice
- Promotes under utilization of resources
- Leads to exploitation of consumers
- High production costs.
- Leads to collapse of small scale firms
- Worsens income inequality
- Increased duplication of services which leads to resource wastage
- Limited variety of goods in perfect Oligopoly.

**5(a) High elasticity of supply,**this is where a small change in price leads to a bigger proportionate change in quantity supplied.

**While**

**Low elasticity of supply,** this is where a big change in price leads to a smaller proportionate change in quantity supplied

**(b) Factors that lead to low elasticity of supply;**

- High cost of production
- Long gestation period
- Limited supply of F.O.P
- Unfavorable climatic conditions
- Low levels of technology
- Perishable commodities
- Unfavorable political climate
- Presence of a few producers
- Restricted/blocked entry of firms into the industry
- Expectation of future price increase
- Production at excess capacity
- High taxation
- Poor infrastructure
- Short run period of production
- Immobility of factors of production
- Profit maximization motive

6(a) **Vent for surplus,** refers to a situation where international trade provides an opportunity for countries to utilize the formerly idle resources to produce surplus output for export markets.

**(b) Causes of poor terms of trade in developing countries;**

- Exportation of semi - processed products
- Importation of expensive manufactured capital and consumer goods
- Increased competition of export with synthetic fibres.
- Market flooding of raw material products on the international market.
- Protectionist policies of developed countries against LDCs' products.
- Weak bargaining power on the world market
- Discovery of raw materials saving techniques by developed countries

- Low quality exports
- Low income elasticity of demand for exports
- Falling prices of exports
- Unfavourable exchange rates between LDCs and MDCs.
- Increasing prices of imports.

7(a**)** **An economy**, refers to the system of ownership and allocation of resources in the country. **Or** the system of production, distribution and consumption of goods and services in the country.

**While**

**Structure of an economy**, refers to the basic features of a national economy in terms of pattern of production, output levels, ownership, control and organization of resources.

**(b) Description of the structure of Uganda's economy;**

- It is mainly agricultural in nature
- There is a small but growing industrial sector
- It is a dual economy
- It is mainly a mixed economy
- It is an open economy
- It is highly a dependent economy
- The labour force is mainly unskilled and semi skilled
- Most of the productive sectors produce at excess capacity
- It has a high population growth rate relative to economic growth
- There is generally low level of infrastructural development both economic and social due to inadequate resources
- There is generally widespread unemployment and underemployment of labour

**(c) Description of the structure of Uganda's agricultural sector;**

- Mainly subsistence in nature
- Mainly depends on nature and subject to the law of diminishing returns
- Mainly done on small scale
- Dominated by use of rudimentary tools such as slashers,hand hoes etc which makes labour less productive
- Mainly produces low quality output due to poor technology
- Mainly employs semi skilled and unskilled labour
- Mainly rural based because land and labour in rural areas are relatively cheaper
- Mainly depends on a few export crops because production is mainly for domestic markets
- Production is mainly composed of food stuffs and a few cash crops
- Dominated by use of family labour and women play an important role

8 a **(i) Residual unemployment,** it's unemployment that arises due to physical and mental incapacitation of the potential labour force which doesn't allow labour to actively and fully get involved in production.

(i**i) Erratic/ unemployment, t**his is unemployment where labour is only employed when there is demand for it but becomes unemployed for a short time after the job is accomplished.

**Or**

A form of unemployment where workers are employed on a temporary basis and as soon as their contracts are done/over they become unemployed eg builders, car washers etc

**(iii) Search unemployment,** it is unemployment that occurs when labour is changing jobs in the short run or the unemployment that arises due to temporary adjustment in the forces of demand and supply of labour.

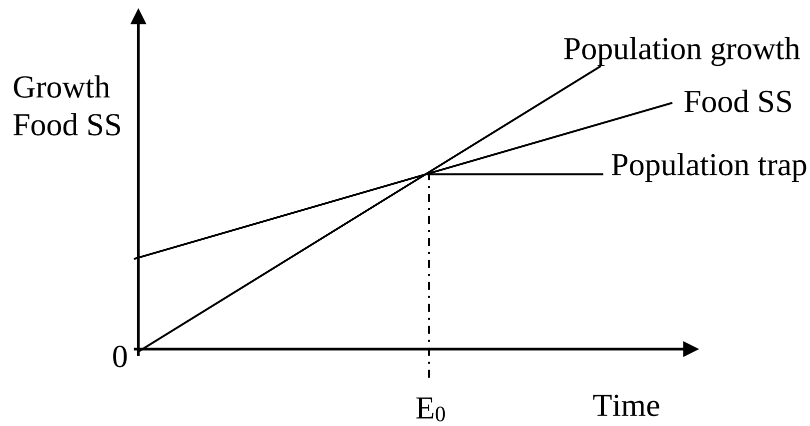
**(iv) Disguised unemployment,** a situation where labour force appears to be actively involved at work but the marginal product is either zero, negative or negligible. **Or** a situation where there are many workers and some can be removed without causing any reduction in total output.
**(v) Hidden unemployment, i**t's a situation where labour appears to be fully involved at work but largely un productive due to the use of inappropriate tools, inadequate skills, hunger, lack of motivation etc.
(b) **Causes of search unemployment;**
- Changes in demand/ market
- Temporary shortage of raw materials
- Temporary breakdown of machinery in production
- Political instability
- High level of bureaucracy in getting a new job.
- Discrimination in the labour market
- Ignorance of labour about existing job opportunities elsewhere.
- Technological improvement/ advancement
- Specialized training of given jobs/ limited skills
- Geographical immobility of labour

**9(a) Description of Rostow's stages of economic growth;**
- Traditional stage
- Preconditions for take off stage/ Transitional stage
- Take off stage Drive to maturity stage
- Age of high mass consumption

**(b) Circumstances under which Economic growth may lead to economic development;**
- When it increases the percapita income
- When it reduces absolute poverty
- when there are high levels of consumption
- When there are better health services
- When it leads to reduction in death rates and birth rates.
- When it leads to reduction in dependence on foreign economies
- When there is an increase in people's freedom of choice/ variety.
- When it is accompanied by reduction in illiteracy rates.
- When it creates more employment opportunities.
- When it promotes balanced growth in the country
- When it reduces income disparity
- When it is accompanied with better working conditions such as high wages, use of protective gears etc.
- When it leads to greater price stability

**10(a) Explanation of malthusian population theory;**
The theory states that where as population grows at a much faster rate in a geometric progression ie 2,4,8,16,32,......., food supply grows at a lower rate/ arithmetic progression ie 2,4,6,8,10,12,..........
It further states that there would be a point when population growth would equal food supply ie population trap, beyond which food production would not be enough to sustain the population leading to famine, suffering, starvation and death.
Malthus suggested that to reduce this calamity, negative checks such as celibacy, late marriages ,moral restraint have to be used to control population growth, other wise positive checks such as wars, and

diseases would start operating to reduce population growth to match with food supply. It is illustrated as below;




**(b) Assumptions that underly the malthusian population theory;**

- Assumes that land is fixed and subject to the law of diminishing returns
- Assumes the operation of positive and negative checks to control population.
- Assumes fixed/ constant technology
- Assumes a closed economy
- Assumes a subsistence economy where everything is meant for domestic consumption

11(**a) Exogeneous money supply,** it is the money supply that is determined and fixed by the central monetary authority regardless of the level of interest rates and economic activities.

While

**Endogenous money supply,** it is the money supply that is directly influenced by the interest rate and the level of economic activities in the economy.

(b) Factors that determine money supply in an economy;

- Level of liquidity preference
- Level of financial accommodation
- Level of monetization of the economy/ size of the subsistence sector
- Volume of foreign exchange reserves
- Level of economic activities/ level of investment
- Level of capital inflows and outflows level of operation of monetary policy
- Level of interest rates

12(a) **Headline inflation,** this is inflation resulting from persistent increase in the general price level of both food and non food items.

**While**

**Underlying inflation,** this is inflation resulting from a persistent increase in the general price level of only non food items ie it excludes food prices.

**(b) The theories of inflation include;**

- Demand pull inflation
- Cost push inflation
- Structural/bottle neck/ scarcity inflation
- Imported inflation

**UEBETA WISHES YOU GOOD TIME:**

**REMINDER: UEBETA SETS MOCK EXAMINATIONS FOR S4 AND S6**

**For information contact us on: 0772/0752- 005184 or 0774701960.**

**END**