A LEVEL

P220/1 MARCH 1985

SECTION A:

1.(a) Commodities P and Q are jointly supplied. How is an increase in the demand for P likely to affect the price of Q ?

An increase in the supply of commodity P increases the supply of commodity Q, and an increase in the demand for P affects the price of commodity Q by reducing it because the supply of commodity Q increase. Examples of commodities jointly supplied include:- wool and mutton beef and hides etc. (Illustration is essential).

(b) Give a reason to justify each of the following:

i) The location of a cement factory at Tororo where there is relatively little demand for cement.

ii) The establishment of furniture workshops in towns where there are no raw materials for making furniture.

(i) Its location at Tororo is aimed at reducing the transport costs on limestone, which is a bulky raw material hence expensive to transport.

(ii) Furniture workshops are set up in towns because of high market potentials (large population in towns, means high demand or a ready market). Also furniture products gain weight hence it is necessary to establish them at market sources in towns.

(c) (i) Explain what is meant by the term Mobility of labour.

(ii) Give 3 factors that lead to immobility of labour.

(i) Mobility of labour refers to the ease with which labour can move from one place to another that is (geographically) or from one job/occupation to another when conditions in the labour market change.

(ii) The factors that lead to immobility of labour include:-

- High degree of ignorance about the existence of jobs or more employment
- opportunities else where.
- High transport cost or poor transport that limit the movement of labour.
- High degree of apathy / social restrictions e.g Age, culture.
- Limitations in skills.
- High costs of training required in another job.
- Political instabilities in employment areas.
- High degree of specialization / high degree of specificity.
- Better remuneration or conditions in the current job.
- Better working conditions in current job e.g. Law and Medical professionals.

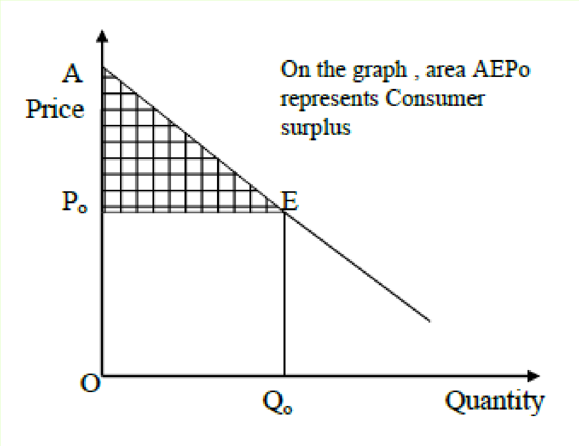
(d) With the help of an example, explain the term " Consumer Surplus"

Consumer surplus is the difference between the maximum amount (price) a consumer is willing to pay for a good and what he actually pays for it i.e. it's current market price.

OR

It is the extra utility a consumer enjoys without paying for it because the market price is lower than what he is willing to pay.

Below is an illustration of the consumer surplus:



(e). Explain the following terms as used in economics
(i) Fiduciary issue, (ii) Bank rate.
i) Fiduciary issue refers to the currency notes (money issued) by the central bank and not backed by gold or foreign exchange reserves by government security.

ii) Bank rate refers to the rate of interest charged by the central bank on commercial banks when commercial banks are borrowing funds from the central bank as a lender of last resort.

P220/2 MARCH 1985
SECTION A:

1(a)(i) Define "Entrepreneur"
(ii) Give three functions of an entrepreneur.

(i) An entrepreneur refers to a special factor of production (person) that helps in the organization of other factors (i.e labour, land capital) in the production process.

(ii) **The functions of an entrepreneur include:**
- He is a coordinator i.e coordinates other factors of production to make production possible.
- He is a decision maker i.e makes decisions for other factors of production.
- He introduces new techniques of production.
- He is a risk taker i.e. undertakes risks to invest in productive activities.
- He is an innovator.

(b) (i) Define perfect Competition.
(ii) Give any three characteristics of perfect competition.

(i)Perfect competition is a market situation characterized by the existence of very many buyers and sellers of homogenous goods or services with perfect knowledge and free entry and exit so that no single buyer or seller can influence the market price of the goods or services.

(ii) The three characteristics of perfect competition include;-

- Complete absence of rivalry among the individual firms.
- Existence of large number of buyers and sellers.
- Free entry and free exist.
- Perfect mobility of factors of production
- No advertisement.
- Production of homogeneous or identical goods in the eyes of the consumers.
- Perfect knowledge about market conditions.
- No transport costs.
- No government interference
- Absence of collusion and independent decision making.

(c) i) Name two ways in which a country's population may increase.

(ii) How is the natural growth rate determined ?

(i) A country's population may increase naturally due to:-

- Increase in birth rates.
- A decrease in death rates.
- Migration effect.

OR

- Naturally i.e. Natural increase such that birth rates increase and crude death rates reduces.
- Artificially i.e. increase in immigrants from abroad.

(ii) Natural population growth is determined by:

(Birth rate – Death rate)/1000

OR $\left\{\frac{BR - DR}{1000}\right\} \times 100$

(d) Distinguish between the following:

(i) A shareholder and a debenture holder.

(ii) A capital market and a stock market.

(i)A **share holder** refers to a person who contributes funds / money for the purpose of running a company and he earns

dividends in return (i.e. he is one of the owners of the company) on the other hand,
A **debenture holder** is a creditor to a company and he earns interest in return.
(i)A **capital market** is where long-term loanable funds are bought and sold. On the other hand a **stock market** is where shares, stocks and debentures are traded.

(e) (i) Define public debt and give different types of public debt.

(ii) What are the sources of public debt ?

(i)A public debt refers to a debt incurred by the state or government as result of borrowing from within the country and external sources on behalf of the citizens.
The different types of public debts include:-
According to source:

- Internal public debt, which is mainly owed to residents of the country.
- External public debt, which consists of, borrowed funds from another country or multinational agencies like IMF and World bank.

According to what the debt is meant to do, there is:-

- A reproductive debt. i.e. a debt covered with real physical assets.
- Dead weight debt i.e. a debt that is not covered by any real assets for example war debts, have no physical assets against them.

(ii) The sources of public debts include:-

- Friendly countries such as Japan, America and European countries.
- Wealthier private individual within the country.
- Private financial institutions e.g. Private banks and insurances.

- Monetary foreign financial institutions like I.M.F and World Bank.

P220/1 MARCH 1986
SECTION A:

1.(a) Distinguish between "Disposable income" and "Personal Income".

Disposable income refers to the income / amount of money available to households for spending and saving after all the personal direct taxes and compulsory payments such as N.S.S.F have been cleared. On the other hand, personal income is defined as the total income received by persons from all sources. It includes wages and salaries, fees and commissions, bonus interest, earnings from self –employment and dividends. Unemployment allowances, old age benefit and social security benefits.

(b) Explain what is meant by the term "Economic dualism" as usually applied to developing economies.

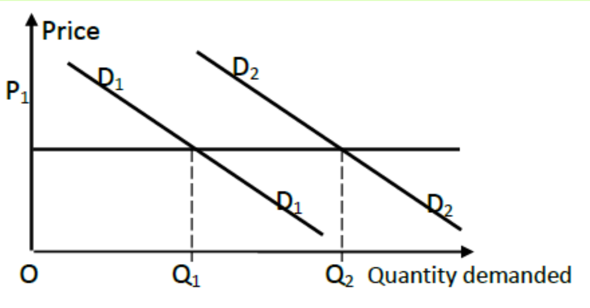
Economic dualism refers to the co-existence in one place where two contradicting socio-economic situations in an economy are advanced and modern while the other is superior and desirable e.g.

- The rural and urban sector.
- Formal and informal sector.
- Advanced modern technology and traditional primitive backward
technology.
- The monetary and subsistence sector
- Extreme poverty and affluence e.t.c

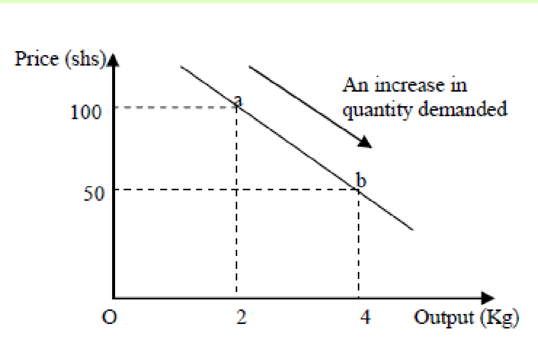
(c) (i) With the help of diagrams, distinguish between an increase in demand and an increase in quantity demanded.

(ii) Briefly say what brings each about.

(i) An increase in demand refers to the increase in quantity purchased (demanded) as a result of favourable conditions / factors influencing demand except the commodity's own price as illustrated below:



While an increase in quantity demanded referes to an increase in quantity purchased (demanded) brought about by a reduction in the commodity's own price when other factors influencing demand remain constant (Ceteris Paribus) as illustrated below:



(ii) **An increase in demand is brought about by:.**

- An increase in consumer's income
- A decrease in the price of compliments.
- A positive change in tastes and preferences.

- Fair distribution in incomes among households.
- Favorable government policy i.e subsidization of consumers.
- An increase in the size of the population.
- An increase in the price of substitutes.
- Advancement or improvement in cultures of the people towards the consumption of a commodity.

However, an increase in quantity demanded is brought about by a reduction in the commodity's own price, ceteris paribus.

(d) (i) Define the term "Tariff"
(ii)With the help of two examples, explain the term, "non-tariff barrier"

(i)A tariff refers to a tax imposed on imports or
A tariff is a tax or duty imposed on the commodity traded a cross the border.
A tariff imposed on imports is called import tariff and tariff imposed on exports is called export tariff.
(ii) Non –tariff barrier refers to the restrictions imposed on certain commodities mainly imports and exports.
Examples of non-tariff barriers to trade include;

- A Quota -direct administrative controls
- Trade ban/Embargo -licensing methods
- Subsidies -foreign exchange control
- Exchange control -quality control requirements.
- Discriminative practices -Devaluation

(e)(i) What is meant by Voluntary unemployment?
(ii) Give two causes of voluntary unemployment.

(i)Voluntary unemployment is a situation where jobs are available but the labour force is unwilling to take them on at the going wage rates.
(ii) The causes of voluntary unemployment include;

- Low wage rates compared to the cost of living.
- Workers may not wish to provide their services at the ruling wage rate and are hoping to get better paying jobs elsewhere.
- Laziness amongst the people.
- Individuals may be waiting to take on better jobs.
- The unfavorable locations of the available job opportunities e.g. in rural distant places.
- Some people's desire for enjoying leisure than working.
- Socially unacceptable jobs that may be available.
- Poor terms of serve / generally poor remuneration
- High preference for living on past-accumulated savings.
- Some people feel too qualified for the available jobs though some jobs may be seen as too risky for some people to take on.
- Religious and cultural limitations e.t.c

P220/2 MARCH 1986
SECTION A:

1.(a) Distinguish between "an Economic good" and " a Free good"

An economic good is any commodity that yields utility to an individual or society and must be paid fro in monetary economy. Such a good is relatively scarce, yields utility, has an opportunity cost and has monetary value, on the other hand, a free good is a good that exist in plenty or abundance such that ones' desire can be satisfied at Zero price (free of charge) e.g. air sunlight, water in village etc.

b) Define the following terms:

(i)Normal wages

(ii)Real wages.

(i)Normal wage refers to a wage, which is given to workers in monetary terms e.g. a worker earning 10,000 shs per month.

(ii) A real wage refers to the purchasing power of a money wage i.e. it's the basket of goods and services that money wage can buy i.e.

$$\text{Real wage} = \frac{\text{Nominal wage}}{\text{Price level}}$$

(c) Give 4 different ways in which a country may be described as economically dependent.

A country may be described as economically dependent when:-

- It depends on foreign trade (international trade)

- It depends on foreign aid
- It depends on foreign economic decisions i.e. relying on external
  decision –making and foreign manpower.
- Sectoral dependence (i.e. dependence on Agriculture)

(d) (i) Distinguish between favourable balance of trade.
(ii) Explain briefly why favourable terms of trade may not necessarily imply favourable balance of trade.

(i)Favourable terms of trade refer to a situation whereby the prices of exports of a country are higher than price of her imports.

On the other hand favourable balance of trade refers to a situation when the value of physical exports of a country exceeds the value of physical imports.

(ii) –Increase in export prices may be before only few products.

-Increase in the volume of exports may be accompanied with a small increase in prices etc.

(e) (i) What is meant by subsistence sector?
(ii) Give at least two features associated with subsistence production.

(i)Subsistence sector is a sector where production is meant for owners' consumption or is a sector where some resources are still unexploited and its common in rural areas where the majority of the commodities are meant for family subsistence and it's only the surplus that is sold.

(ii) The features associated with subsistence production include:-

- Simple or rudimentary / primitive tools are used e.g. a machete.
- Depends largely on family labour.

- low productivity
- Production is mainly for personal consumption.
- People are ignorant about the use of modern techniques.
- Mainly located in rural areas. Weak trading position.
- Dependence on nature both climate and soils resulting into

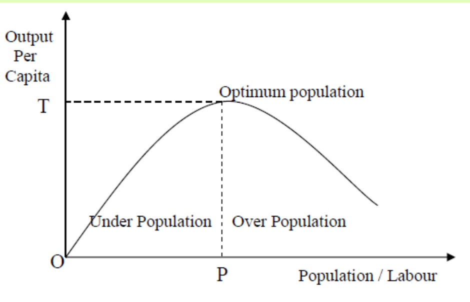
low poor

- quality yield.
- Use of barter trade system in the exchange of goods.

P220/1 MARCH 1987
SECTION A:

1.a) (i) Define and illustrate what is meant by "Optimum population"
(ii) Outline two factors determining optimum population in a country.

(i)Optimum population is the right size of the population (labour) when combined with other factors of production and a given state of technology yields the maximum output or it refers to the population at which the average output per person in the economy is at maximum given the existing resources; thus it's the population which fits in the available resources.



From above, maximum population OP produces output OT (Maximum attainable) hence optimum population refers level of population that allow the most efficient use of factors of production leading to maximum output.

(ii) The factors determining optimum population include:-

- The number of people (quantity of labour force)

- The availability of resources.
- Level of technology

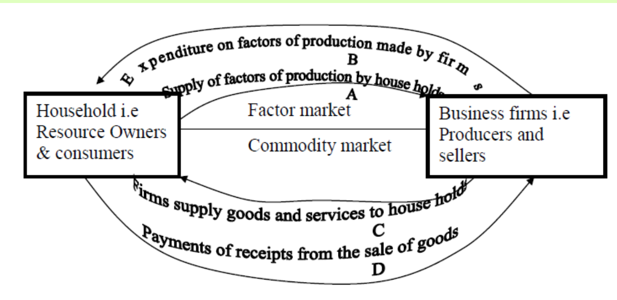
Level of exploitation

(b) (i) Briefly explain and illustrate the circular flow of income.

(ii) What constitute injection to the circular flow of income?

(i)Circular flow of income refers to the flow of payments and receipts between domestic firms and domestic house holds. Money passes from Households to firms in return for goods and services produced by firms and money passes from firms to households in return for the factor services provided by Households.

Illustration of the circular flow of income.



From above:-

- Firms buy factors of production from Households (A) and pay for them (B) and later uses these factors of production to produce goods and services which they sell to house holds (c) and House holds pay for these goods and services (D)

(ii) Injections are comprised of:-

- Investment (I)
- Government expenditure (G)
- Exports (x)

(c) How does a development Bank differ from a commercial Bank? Give at least three ways in which they differ.

- A development bank is a non – financial intermediary specialized for providing medium and long-term credit for development projects, while a commercial bank is a financial intermediary that acquire funds by accepting checkable deposits and saving deposits from households and business firms and use these funds to make loans (create credit) to business and individuals.
- A development bank finances long-term project while a commercial while commercial banks are owned by private individuals.
- A development bank takes greater risks for purposes of development of their economy while commercial Banks always try to avoid risks when giving loans.

(d) (i) What is a government budget?
(ii) Outline three sources from which government may finance its budget.

(i)A budget is an annual financial statement showing how the government intends to raise its Revenue and how it intends to spend it in a given financial year / period.

(ii) The sources from which government may finance its budget include:-

- The government may sell treasury bills and bonds to raise funds from the public in order to finance the budget.
- The government may borrow from rich friendly countries like U.S.A, Japan and other European countries.
- The government may direct the central bank to print more money.
- The government can also borrow from the central Bank.

(e) (i) What is meant by the term "Legal tender"?
(ii) Mention any four qualities of good money.

(i)Legal tender refers to anything that is generally accepted by everybody in the country in the settlement of debts and as a form of payment or refers to money which according to law must be accepted in payment of any financial obligations or money which a creditor is legally obliged to accept in settlement of a debt.

(ii) The qualities of good money include:-

- Divisibility i.e. it must be divisible into smaller denominations.
- Acceptability i.e. it must be acceptable to society as a medium of exchange,
- Scarcity i.e. it must be relatively scarce so as to retain its value.
- Reconcilability
- Difficult to forge.
- Stability in value over long duration.
- Homogeneous i.e. it must be homogenous (similar)
- Durability i.e. paper notes and coins should be long lasting.
- Portability i.e easy to carry.
- Be convenient and cheap for the government to print.

P220/2 MARCH 1987
SECTION A:

1. (a)(i)What is meant by deficit expenditure ?

(ii) What is the major objective of deficit financing ?

(i)Deficit expenditure refers to the amount by which planned government expenditure exceeds realized tax revenue. Such expenditure is normally financed by borrowed funds and printing more money by the central bank.

(ii) The major objective of deficit financing is to:

- Stimulate economic activities by increasing the purchasing power / aggregate demand within the economy.
- Stimulate the economy from a recession to a recovery and finally to a boom.
- To increase consumption by raising disposable income.
- To avoid the negative effects of taxation.
- To win political support.

(b)(i) State two differences and two similarities between perfect competition and perfect Oligopoly.

(ii) Give two examples of perfect Oligopoly supply situation in Uganda.

(i) **The similarities include:-**

- Both deal in homogenous products.
- In both market situations, there is no advertisement.
- In both market situations, there are many buyers.
- In both cases, profit maximization is the major goal MC = MR.

The Differences include:-

- In perfect competition there are many sellers while in perfect oligopoly, there are few sellers.
- In perfect competition, firms are price takers while in perfect oligopoly; there is price – rigidity.
- The demand curve under perfect competition is perfectly elastic while under perfect oligopoly it is kinked at the administered price.
- In perfect oligopoly, entry is restricted while in perfect competition, there is free entry and exist.

(ii) The examples of perfect oligopoly supply situation in Uganda include:-

- Cement firms
- Producers of vegetable oils.
- Cable wire companies and baby food producers.

(c). (i) Define the term "economies of scale"

(ii) Name three external economies of scale arising out of localization of firms .

(i) Economies of scale refers to advantages accruing to a firm resulting from the expansion of the scale of its productive capacity, leading to increases in it`s output and decreases in its costs of production per unit output.

(ii) The external economies of scale arising out of localization of firms include:-

- Research economies i.e. firms carry out joint research for mutual benefits.
- External financial economies.
- Economies of concentration i.e. firms share common services e.g. same transport and traveling facilities, power and telephone.
- Labour economies i.e. access to highly skilled labour force in the area who can work in two or more industries.

- Market expansion / economies i.e. some firms may become the source of market for the already established firms. Etc.

e) (i) What is a closed economy?
(ii) What symbols do we use to represent the Gross National product of an open economy?

(i)A closed economy is an economy that is entirely contained and does not carry out any kind of exchange with the rest of the world. Such an economy does not interact with other economies i.e. its free from any external influence.

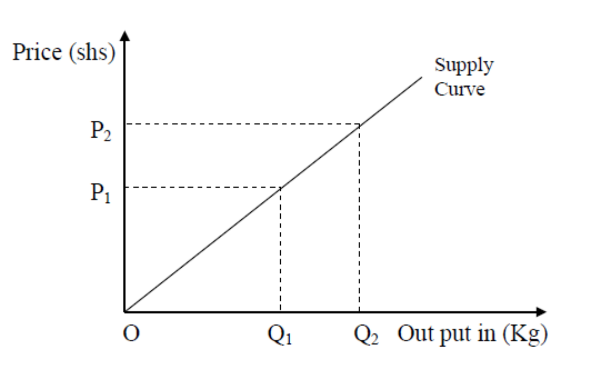
(ii) Gross National Product = C + I + G (X –M)

Where C = Consumption expenditure
I = Investment expenditure
G = Government expenditure
X = Export expenditure
M = Import expenditure

(f) (i) State and illustrate the law of supply.
(ii) Give two instances when supply may not conform to the law stated above.

(i)The law of supply states that, other things being constant the higher the price of the good, the greater the quantity of that goods sellers are willing and able to avail onto the market (to supply) in a stated period of time.

It is illustrated by the graph below:-



The two instances supply may not confirm to the law of supply include:-

- When the government policy is that the people buy the public goods at lower prices.
- Abnormal supply curve of labour due to the presence of target workers and preference of leisure to work.
- Seasonal influence i.e. when the season is ending such that large quantities of goods may be supplied at lower prices to allow stocking for new season.
- Speculation by sellers' i.e. future price expectation with trends.
- Seasonal changes i.e. with perishable goods, more will be put on market immediately after harvest even if prices are low e.g. agricultural goods such as tomatoes.
- Fixed supply situations e.g. supply of land.
- In periods of wars, even if prices are high, supply may not increase.

P220/1 MARCH 1988
SECTION A:

1. a) (i) Distinguish between profit and interest.
(ii) Give two factors, which determine the rate of interest on capital.

(i)Profit is a term used to refer to the payment to an entrepreneur for his role in the production process. It is the difference between a firm's total revenue and total costs. Profit may be normal where (AR =AC) or abnormal where (AR > AC) however, interest is the price for the use of funds, normally expressed as a percentage per shilling borrowed. It can also be defined as a payment to capital for its role in the production process.

(ii) The factors which determine the rate of interest on capital include:-

- The demand for loanable funds.
- The level of money in circulation.
- Marginal efficiency of capital.
- The level of supply of liquid capital.

- The period accorded for loan repayment.
- The level of the bank rate.
- The level of business activity in the country
- The level of stability in the banking sector.

(b) (i) What is meant by collective bargaining?
(ii) Outline the factors, which determine the strength of a trade Union.

(i)Collective bargaining refers to a process used by employees through their unions to negotiate / bargain for higher wages and better working conditions from their employers.

It involves round table negotiations between the two parties till what is viewed as a fair wage level or the acceptable working conditions are established by the two parties.

(ii) The factors which determine the strength of a trade union include:-

- Nature of labour market i.e. demand for labour versus co operant factors.
- Degree of unity among workers.
- Degree of unionization among workers.
- Financial strength of trade unions (amount of strike funds available)
- The level of employment / unemployment in the economy.
- Degree of government control over trade unions.
- Consistence of workers.
- Leadership skills.
- Elasticity of demand for products they produce.
- Prevailing economic performance.
- Elasticity of supply of labour.

(c) (i) Define elasticity of supply.
(ii) Outline factors that determine the level of National income.

(i)Gross National product at factor cost is the monetary value of goods and services produced within the nation plus net income from abroad subtracting subsides and taxes in a given year.
While
Gross domestic product at Market Price refers to the monetary value of goods and services produced within the nation as valued at the ruling prices excluding the net income from abroad but including taxes and subsidies in a give year.

(ii)The factors that determine the level of National income include:-

- Nature of natural resources and the level of their exploitation.
- The level of technology advancement
- The quantity and quality of labour force.
- Level of entrepreneurial ability
- The level of investment and saving.
- The investment climate / conditions.
- Government policy i.e. Taxes and Subsidies.
- Political atmosphere.
- The level of capital stock available
- The size of domestic and foreign markets.
- Level of development of infrastructure.
- Population growth rates.
- Level of specialization and efficiency.

(f) (i) What is price discrimination?

(ii) Give three conditions necessary for price discrimination to succeed.

(i)Price discrimination is a practice by a monopolist, of selling the same (or slightly differentiated) product at different prices to different consumers even if the average costs of production are the same.

(ii) The conditions necessary for price discrimination to succeed include:-

- The commodity must be sold by the monopolist.
- There should exist different elasticity of demand for the item in the different markets.
- High degree of consumer ignorance i.e consumers should be ignorant on how much is charged in other markets.
- The market for different classes of consumers must be separable so that buyers of low-price market are not in a position to resell the commodity in the high –price market.
- The cost of dividing the market should be low.

P220/2 MARCH 1988
SECTION A:

(a) (i) What is meant by the term ' Opportunity cost'?
(ii) Why is the concept of choice important in economics?

(i)Opportunity cost refers to the alternatives foregone when choice is made.

(ii) The concept of choice is important in economics in that:-

- Choice enables the taking or making of right decisions.
- Because resources are scarce or limited, only the most pressing wants will be satisfied.

(b) Outline four characteristics of an economy that has reached the 'take off' stage.

- The economy attains a steady growth.
- Savings and investments increase from 10-15% of the G.DP
- Introduction of new techniques of production.

- Change in political, social and institutional framework to help in the speeding up of development.
- Expansion of a monetary sector with a fading role in subsistence sector.
- Development of one or more leading sector with high growth rates e.g. the development of a substantial manufacturing sector.
- Elimination of all roadblocks to steady growth.

(c) (i)Distinguish between liquidity ratio and liquidity preference.

(ii)Why is money held in liquid form?

(i)Liquidity ratio refers to the proportion (percentage of fraction) of the commercial bank's deposits kept in cash form or in form of assets that can easily be turned into liquid cash to meet customers' daily demands e.g. Gold, Cheques and Bank drafts.

On the other hand, liquidity preference is the tendency by individuals and firms (institutions) to prefer keeping their assets (wealth) in cash form.

(ii) Money is held in liquid form for:-

- For speculative motive i.e. the speculative nature of the business class who are always on the look out for any opportunities.
- For precautionary motive i.e. to cater for the un-foreseen contingencies such as sickness.
- For transaction motive i.e. to meet the daily expenditure.
- For financial motive i.e. to finance the ongoing investment.
- The high and always increasing prices necessitating the people to keep large cash amounts on themselves.

(d) (i) Define the term investment.

(ii) What two factors will influence a private business mans' decision to invest in a particular venture?

(i)Investment is defined as the addition to the existing stock of capital / it's the flow of expenditure devoted to projects producing goods which are not intended for immediate consumption e.g. setting up an industry factory, school e.t.c.

(ii) The factors include:-

- The rate of interest ruling.
- The stock of capital in the economy
- The marginal prosperity to consume.
- The marginal efficiency of capital.
- The investment climate of the time.
- Business expectations.
- The cost of capital goods.
- The government policy on investment.

(e) (i) What is meant by the term 'Investment Multiplier'?

Investment multiplier refers to the number of times a given change in investment expenditure multiplies itself to bring a final change in National income. It's the rate in national income to the change in investment.

(ii) Define 'marginal propensity to consume.

Marginal propensity to consume refers to the fraction of a consumer's additional income that is available for consumption.

$$\text{MPC} = \frac{\text{Change in Consumption expenditure}}{\text{Change in total income}}$$

P220/1 MARCH 1989
SECTION A:

1. **The classical economists defined Economics as 'the science of accumulation of wealth' in 1935, Robbins defined economics as a 'science, which studies the relationship between ends and scarce means which have alternative needs.'**

(a) (i) Explain the meaning of each of the definitions of Economics.

(ii) Which of the two definitions is more appropriate and why?

(i)The first definition looks at Economics as only interested in acquiring material welfare i.e. acquiring of material wealth and prosperity of nations.

The second definition shows that;

- Human wants are endless or unlimited.
- Resources to satisfy human wants are scarce or limited
- That the scarce resources are capable of being put to alternative uses.

- That economics essentially deals with human behaviors, which are related to allocation of scarce resources between their alternatives.
- All human wants are not equally important i.e some wants are more urgent and pressing than the others.
- People's desire is to maximize their satisfaction or gains e.g Households and firms.

(ii) Robbins definition is more appropriate because it recognize the basic economic principles i.e recognizes the economic principles i.e scarcity, choice and opportunity cost which affect all economies of the world.

b) Examine the table below and answer questions b (i) and (ii)

Basket of goods	Base year index	Current year index	Weight
Commodity A	100	130	1
Commodity B	100	150	2
Commodity C	100	90	3
Commodity D	100	120	4

(i) Which commodity had the lowest change in prices and by how much?

(ii) Calculate the weighted percentage change in the cost of living and briefly explain the significance of weighing.

(i)Commodity C had the lowest change by a degree of 10 i.e. (100 –90) = 10

(ii) The weighted percentage change in the cost of living is calculated below.

$$\frac{(130\times 1)+(150\times 2)+(90\times 3)+(120\times 4)}{1+2+3+4} = \frac{1180}{10} = 118$$

$$118 - 100 = 18$$
$$= 18\%$$

- Weighting shows the relative importance of commodities to consumers.

(c). (i) What name is given to the payment made to each of the factors of production for the service that they render ?

(ii) Distinguish between Normal profits and pure profits.

The payment made to each factor include:

- Land is paid rent.
- Labour is paid salary and wages.
- Capital is paid interest.
- Entrepreneur is paid profit.

(ii) Normal profits are the profits attained by a firm when it sells output at a point where average cost is equal to average Revenue (AC=AR) hence a firm makes zero profits. On the other hand, pure profits are the profits attained by a firm when it sells output at a point where average revenue is greater than average cost such that AR > AC.

Alternatively;

Normal profit is the minimum rate of return that a firm earn to remain in the industry especially in the long-run and it occurs when the firms AC= AR

AR while pure profit is the surplus over and above the cost of production and it occurs when P (AR) > AC.

(c) (i) What is education ?

(ii) Give 2 features that qualify education to be an investment.

(i)Education refers to any formal and informal acquisition of knowledge and skills through learning and training and it's the major component of the human capital formation process.

(ii) Education qualify to be an investment because;-

- Like any other investment, education costs money and has a price e.g. costs of paying school fees and other school requirements.

- It has an opportunity cost i.e. other activities are foregone like present consumption and supply of labour by the learner is foregone in favour of education.
- Like any other investment, education involves future benefits e.g. high incomes to the educated workers and utility is derived from its attainment.

(d) (i) What is Stagflation?

(ii) State the objectives of the stabilization policy.

(i)Stagflation is a situation of economic stagnation where high rates of inflation co-exist with high levels of unemployment. This is a very undesirable economic situation and is also very difficult to fight. It leads to a decline in the people's welfare; has a negative impact on savings and investments in the economy and also leads to social distress and misery. Its most common in LDCs with structural rigidities.

(ii)The objectives of stabilization policy include:-

- Preventing excessive economic fluctuations.
- To ensure a reasonably stable price level.
- Maintain full employment of factors of production.
- Ensuring efficient utilization of labour and other productive resources.
- Motivate producers e.g. farmers to continue producing.
- To ensure / enhance proper planning by the producers.

P220/2 MARCH 1989
SECTION A:

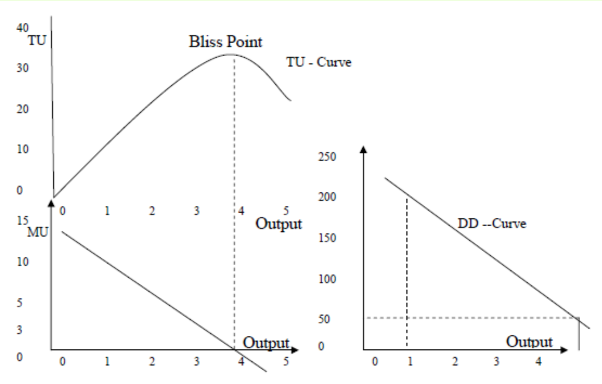
1.(a)(i) What is meant by the statement that 'good possesses utility'?
(ii) By means of an illustration show the relation between marginal utility, total utility and price.

(i)It means that the good has the ability to satisfy human wants or desires.
A hypothetical table showing output, TU, MU and price.

(ii)

Quantity	TU	MU	Price
1	12	12	250
2	20	10	200
3	25	5	150
4	29	4	100
5	32	3	50

(ii) The relationship is that the higher the total utility, the lower the marginal utility and price.
At maximum total utility (point of satisfaction) or Bliss point), the marginal utility is Zero and price is equal to zero.



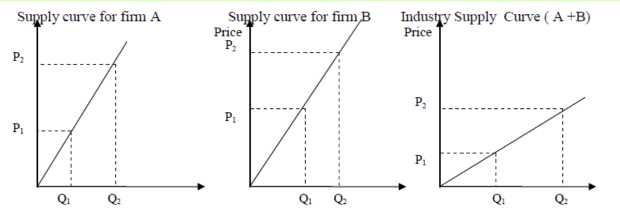
From above, when the consumer buys more units of a commodity following an increase in total utility, marginal utility reduces and the price. The consumer is only willing to pay for the commodity only when the price is reduced.

b)(i) Distinguish between a firm and an industry.

(ii) How does the supply curve of a firm differ from that of an industry in a perfectly competitive market?

(i)A firm is a business or production unit under one management, formed by one person or a group of persons, to carry out an economic activity with the aim of making profits. It may be a single ownership like a sole proprietorship or may be a single ownership like a sole production unit that employs factors of production to produce goods and service sold to house holds, other firms and the government while an industry is a group of firms dealing in the production to produce goods and services sold to house holds, other firms and the government while an industry is a group of firms dealing in the production or sell of a similar or related commodity e.g. the Newspaper industry include firms like New vision, Monitor, East African, Bukedde, Red Pepper.

(ii) The two supply curves are different in the sense that the industry supply curve is derived by the horizontal summation of the supply curves of the individual firms in the industry as illustrated below:-



From above, the industry supply curve is more elastic because it's a combination of various supply curves of different firms.

c) (i) Define the term "Value added"

(ii)Explain how value added is considered when computing the National Income of the Country.

(i)Value added refers to what is added at each stage of production during the course of production (considered to avoid double or multiple counting).

(ii) Under value added only the value added at each stage of production (or sector of the economy) is counted or e.g the value added at each stage in the factory i.e from cotton to thread, to cloth and finally to garment are into account.

(d) Identify the major features of the forth stage of development according to Rostow.

This is (according to Rostow) the drive to maturity stage of growth characterized by a long period of modern technology to the bulk of its resources.

The stage is characterized by the following:-

- Rate of savings and investments is as high as over 10-20% of G.D.P.
- New production techniques take the place of the old ones leading to the production of high quality goods.
- There is self-sustenance and sufficiency.
- The economy is able to with stand unexpected internal and external shocks.
- Emergence of a highly skilled industrial labour force.
- Heavy industrialization taking place in the economy.
- The economy becomes dominant and influential in international trade.

(e) (i) What is meant by indicative Planning?
(ii) What is the difference between compatibility and sequencing principles of planning.

(i)Indicative planning is where the policy of planning takes on an indirect approach to regulate production in private sector through loans and persuasions.

OR

It's where the government identifies priority areas for resource allocation and provides incentives and conducive atmosphere to the private sector but without directing their decisions.

(ii) Compatibility principle of planning is a principle, which advocates for a plan to be drawn in relation to the existing resources in the economy. The plan has to match with the available resources or factors of production.

OR compatibility principle requires that the project in the designed plan should be inter related such that they can facilitate linkages.

While

Sequencing principle of planning is a principle, which advocates for developing certain projects first before the others come so as to have a successful plan.

P220/1 MARCH 1990
SECTION A:

1.(a) (i) Explain the term opportunity cost as used in economics.
(ii)Give circumstances where the demand for a commodity may not fall despite a rise in its cost.

(i)Opportunity cost refers to the alternative foregone when choice is made. It is the cost of choosing to use a resource for a particular purpose measured by the sacrifice of the next best alternative for using them.

(ii)The demand for a commodity may not fall despite a rise in its cost when.:-

- When the commodity in question is a good of a ostentation i.e. a commodity consumed as a status symbol (prestigious or conspicuous consumption).
- When the supply of a good is expected to be scarce in the near future i.e speculation (price expectation) especially future price increase.

- For commodities consumed as a habit (Addiction) e.g cigarettes, drugs addict.
- In case of a commodity that is a necessity e.g salt.
- In case consumers remain ignorant.
- In case the commodity in question is a giffen good.

(b) Explain why the law of variable proportions applies when the fixed inputs are combined with variable inputs in the process of production.

The law of variable proportions applies because of excessive utilization of a fixed factor due to use of fixed technology yet the time is short-run and technology cannot be improved to increase marginal product of the variable input (factor)

(c) What is meant by:-

(i) Resale price maintenance.

(ii) Reserve Price?

1. Resale price maintenance refers to the practice where producers fix prices at which their products should be sold to the final consumer. OR (Resale price maintenance refers to the instance by which manufacturers fix prices for their products up to the level of the retail trader).

Such a practice is commonly used in the newspaper market where the producers fix their prices.

(ii) Reserve price refers to the price below which a seller of a product is not willing to sell his goods or services e.g at an auction. In other words it's the least possible acceptable price to a seller.

(d) (i) Define "Income Multiplier"

(iii) Calculate the multiplier magnitude when marginal propensity to consume (MPC) = 0.6.

(i) Income multiplier refers to the number of times a change in total expenditure multiplier itself to give a final change in income.

ii) Multiplier (M) $= \frac{1}{1-MPC}$

$= \frac{1}{1-0.6}$ M

= 0.4 x 10

= 4

(e) Distinguish between money wages and real wages.

Money wages are wages paid to workers in terms of money e.g. a worker earning in terms of money e.g. a worker earning shs 500,000 /= per month,

On the other hand real wages refers to the purchasing power of money wage i.e. it is the basket of goods and services that money wage can buy i.e.

Real wage. $= \frac{\text{Nominal wage}}{\text{Price level}}$

P220/2 MARCH 1990

SECTION A:

1 (a)With examples, distinguish between forward linkages and backward linkages in an industry.

Forward linkages is a situation that exist when the establishment of an original industry results into the emergence of new industries, with the newly established plants creating market for the products and bi-products of the already existing industry.

On the other hand, backward linkages is a situation that exist when the original industry leads to the establishment of new industry so as to supply raw materials to the establishment of an existing industry.

(b) State four factors that have hindered the development of appropriate technology in Uganda.

Appropriate technology refers to technology which is suitable to local resources or that best suits the socio –economic conditions of the country.

The factors that have hindered the development of appropriate technology in Uganda include.;

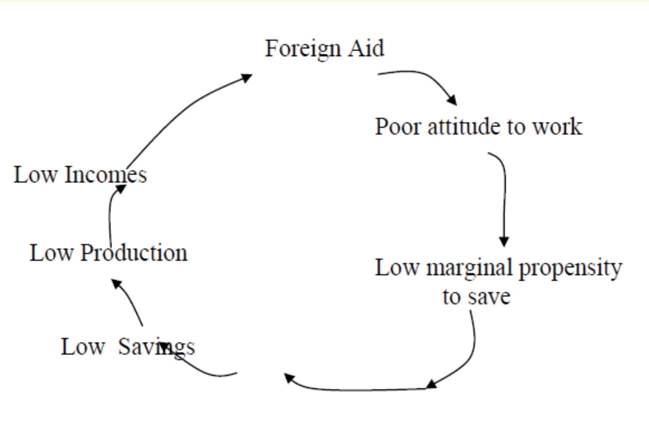
- Low skills or insufficient education.
- Low levels of innovation and invention.
- High dependence on foreign technology
- Poor planning and implementation.
- Negative social / cultural attitudes towards acquisition of new skills.
- Inadequate capital
- Failure to identify the nature of appropriate technology for Uganda.
- Poor political climate.

(c)(i) What is meant by "Vicious cycle" in economics ?

(ii) Illustrate the vicious circle of foreign aid.

(i)Vicious circle refers a self-reinforcing situation in which there are factors that tend to perpetuate in an economy leading to the creation of undesirable phenomenon or circumstances (or trends) it describes a series of unfortunate trends that intensify one another by feeding each other. E.g the vicious circle of poverty in LDCs where low productivity leads to low savings and investment, which in turn lead to low capital accumulation and further low productivity and poverty.

(ii) Illustration of the vicious circle of foreign Aid.



(d) (i) Give two reasons in support of a balanced growth strategy.

(ii)State two reasons against this strategy.

(i)The reasons in support of a balanced growth strategy include:-

- The inevitable interrelationship between sectors i.e sectors are interrelated e.g. Agriculture and industry hence the economy must be balanced.
- It expands the tax base of the nation as a result of increase in economic activities.
- Reduces the viscous circle of poverty.
- Widens the market base due to complimentarity and interrelationships among the sectors of the economy.
- Ensures constant supply of goods and services.
- It encourages technological development / progress.
- It ensures equal regional development.
- Creates self-sufficiency, in the economy hence reducing foreign dependence.
- Simultaneous development of different sectors makes an economy to be diversified.

The reasons against this strategy include:-

- Inadequate resources to allow massive investments in all sectors of the economy.
- Inadequate capital resources to invest in all sectors
- The rapid population growth rate and the resultant dependence problem.
- Lack of adequate planning machinery.
- Limited market as a result of high level of poverty in L.D.Cs
- Poorly developed infrastructure
- Increased demand for factors of production resulting into increased costs.

(e) (i) Distinguish between planned and un-planned economy

(ii) Mention two advantages of a planned economy.

A Planed economy is one where resources are allocated and controlled by the state in decision concerning allocation of resources are taken by the central authorities on the other hand un-planed economy is an economy where resources are owned, control and allocated by private individuals and firms, thus economic decisions are taken by the private sector.

(ii) The advantages of a planned economy include;-

- It eliminates the exploitative private monopolies.
- There is equality of income among the citizens.
- Centralized planning ensures proper allocation of resources.
- It ensures collective ownership of production.
- Ensures efficient use and allocation of resources.

P220/1 MARCH 1991
SECTION A:

1.(a) How is rent related to transfer earnings in Economics ?

Both of them are factor payments given to land i.e. Rent is a payment for land and transfer earning is the supply price for a factor especially land to retain it in its present employment. Rent means the actual payment to the landlords, much of which is transfer earning.

(b)(i) What is meant by Beggar my neighbour policy in economics ?

(ii) Give two reasons why a beggar – my – neighbour policy may be adopted.

Beggar my neighbour policy is an economic measure adopted by a country to improve its domestic economic conditions (like employment situation, controlling inflation etc) but has adverse

effects on another country e.g. policies like devaluation, protective tariffs, normally have negative effects on neighbouring countries which at times take relation.
(ii) Beggar –my-neighbour policy may be adopted to:
- To control balance of payment
- To protect the domestic infant industry
- To control imported inflation.
- To improve the economic conditions within the country such as creating employment opportunities.

(c) Study the table below:

Price	300/=	250/=	200/=	150/=	100/=	50/=
Qty	1	2	3	4	5	6

Using 150/= as the fixed market Price,
(i) Define and calculate the consumer's surplus
(ii) Illustrate the level of consumers' surplus on a graph.
(i) Consumers' surplus refers to the difference between the maximum amount / price a consumer is willing to pay for a good and what he actually pays for it (i.e. its current market price)

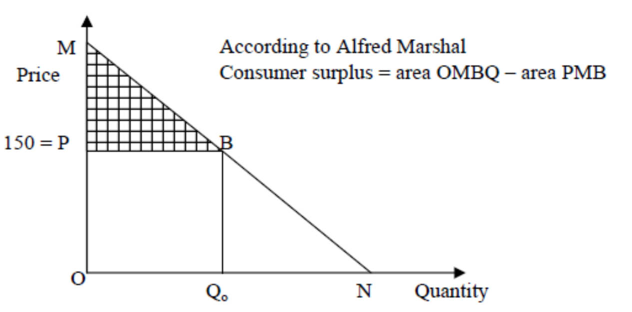
METHOD 1
Consumer surplus – Total Utility – Marginal utility or
Consumer surplus = Total utility – Total expenditure
C.S = (300 + 250 + 200 + 150 + 100 +50) – (150 x 6)
C.S = 1050 - 900
C.S = 150/=
Consumer surplus = 150/-

Method 2

Quantity demanded	Price consumer willing to pay (shs)	Prevailing (current) market price (shs)	Consumer surplus
1	300	-150	150
2	250	-150	100
3	200	-150	50
4	150	-150	0
5	100	-150	-50
6	50	-150	-100
Total			150

Consumer surplus = 150/=

(ii) Below is the illustration of the level of consumers' surplus on the graph.



From above, the shaded area PMB represents the consumer' surplus.

(d) (i) What are supplementary costs?

(ii)Give two examples of supplementary costs.

(i)Supplementary costs are called overhead costs or fixed costs, they are costs that are incurred and do not vary or change with changes in the …..output levels. They are incurred whether the firm is producing or not (i.e They exist even when output is zero) e.g building and other fixed costs, rent on premises, interest payable against a loan etc.

(ii) The examples of supplementary costs include:-

- Rent on premises
- Expenses on fixed assets.
- Interest payable against a loan

- Depreciation of machinery, building and other fixed costs.
- Salaries of permanent managerial and administrative staff or top administration
- Maintenance of land
- Rates etc.

(e) (i) What is product differentiation.

(ii) Name two features of product differentiation

(i)Product differentiation is the practice of producers in an imperfect market creating artificial differences between goods, which perform similar function (in an attempt to beat competitors.

(ii) The features of product differentiation include:-

- Use of branding (trade marks and names)
- Differences in packing/packaging.
- Intensive and persuasive advertisement
- Exclusive patented features i.e shaping and labeling.
- Singularity in quality, design, colour or style etc.

(f) Given the supply of commodity X has increase from 200 units to 300 units per week due to a decrease in price for commodity Y from 80/= to 60/= per unit.

(i) Calculate the elasticity of supply of commodity X.

(ii) Give the possible examples of X and Y.

$$Es = \frac{\%\text{Change of Commodity} X}{\%\text{ Change of price of } Y}$$

$$= \frac{\left(\frac{300-200}{200}\right)\times 100}{\left(\frac{60-80}{80}\right)\times 100}$$

$$= \frac{\left(\frac{100}{200}\right)\times 100}{\left(\frac{-20}{80}\right)\times 100} =$$

$$\frac{(0.5)\times 100}{(-0.25)\times 100} = -2$$

Es = - 2

(ii)Examples of X and Y include

- Leather bags and leather shoes

(g) (i) What is meant by the term "Black Market"

(ii) Why does it occur?

(i)Black Market refers to a situation in the market in which sellers sell goods to buyers at a higher price than the legislated prices. Its at times referred to as "selling goods below or behind the counter".

OR

It is the illegal sale of goods at prices higher or above a legal maximum price set by the government.

(ii) Black Market occurs under the following circumstances:-

- Black Market develops under circumstances of excess demand and government fixed prices below equilibrium.
- Where there is relative scarcity of goods and consumers are willing to pay high prices.
- Hoarding of commodities due to expectation of higher prices.

(h)(i) Explain what Agricultural labour productivity is.

(ii) What non –economic factors affect agricultural labour productivity in Uganda

(i) Agricultural labour productivity is the level of Agricultural output per unit of labour used in the production process. OR Agricultural productivity refers to the output per 'employed' man employed in the Agricultural sectors.

(ii) The non-economic factor that affects agricultural labour productivity in Uganda include:-

- Structure of the population
- Level of skills of agricultural worker/level of education
- Health conditions of agricultural workers
- Nature of Soils
- Nature of Climate e.g. abundant rainfall and drought
- Political climate
- Economic climate, e.g. market conditions
- Natural factors i.e. pests and diseases
- Cultural/Traditional hindrances

(i) Distinguish between liquid money from money in circulation.

Liquid money is that money which consists of notes and coins among the public, while money in circulation refers to that liquid cash (money in cash form) in the public and financial institutions, plus facilities that can perform the function of money but are not money themselves e.g. Bank drafts, cheques, ATM cards etc.

(j) (i)What is meant by credit

(ii)List four instruments or credit

(i)Credit is the process of borrowing and lending OR it refers to the ability of a person to borrow money or to buy a good without making cash payments on the basis of confidence of other people.

(ii) The instruments of credit include:

- Promissory notes
- Drafts
- Bills of exchange
- Lottery
- Bond
- Cheques
- Credit cards
- Securities

- Letter of credit

P220/2 MARCH 1991

SECTION A:

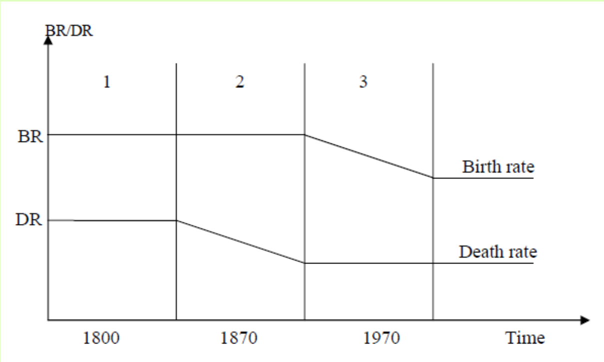
1. (a) Define or briefly explain what is meant by the following:-

(i) Demographic transition

(ii) Population explosion

(i)Demographic transition is the phasing out process of population growth rates from a virtually stagnant growth stage characterized by high birth rates and death rates, through a rapid growth stage with high birth rates and low death rates, to a stable low-growth stage in which both birth and death rates are low as illustrated below:-

(ii)



(iii) Population explosion refers to the sudden, rapid and sharp increase in a country's resources, thus over population explosions may be a result of natural increase e.g. through increased birth rates, or artificial means such as through a sharp increase in immigration levels.

(b) Give two reasons for wage differences between sexes and two reasons for wage differential between regions.

* Between sexes its due to:-

- Differences in the culture of the people
- Differences in people's ability to do work i.e. Men are stronger than women
- Differences in bargaining strength of individual workers
- Variation in level of skills (education and training)
- Differences in talents and natural gifts
- Discrimination in labour markets on the basis of sex
- Differences in experience, expertise or responsibility.

* Between regions, its due to:-

- Differences in the risks of performing jobs e.g. compare miners and teachers.
- Differences in the cost of living between regions e.g. compare Kampala and Kalangala Districts.
- Differences in the prices of products between regions

- Differences in the nature or types of job done between regions.
- Government policy on income and wages tends to be non-matching
- Employer's ability and willingness to pay are not the same between regions

(c) Given 95 as country's export unit value index and 110 as its import unit value index.

(i) Calculate the terms of trade of such a country.

(ii) Comment on such a country's state of terms of trade

(i) Terms of trade $= \dfrac{\text{Export price index}}{\text{import price index}} = \dfrac{Px}{pm}$

$= 95/110 = 0.86$

OR

$\frac{95}{110} \times 100/= \quad = \quad - 86\%$

(iii) Because the ratio of exports to imports is less than one (1), then the terms of trade was un - favourable.

(d) (i)Of what importance are foreign reserves to a country like Uganda ?

(ii) How are they acquired ?

(i) Foreign reserves are important in that they : -

- Can be used for importing capital goods or machinery
- Can be used for servicing of foreign debts
- Can be utilized for removing the balance of payment problems
- Can be used for foreign investments
- Can be deposited in foreign expatriates

(ii) They are acquired through:-

- Selling of government property abroad.
- From state foreign investments abroad
- From private foreign investments abroad

- Receipts from exports
- Foreign aid in form of money
- Brought by the tourists
- Through borrowing from friendly countries and international monetary institutions like IMF and World Bank.

(e) Distinguish between a "funded debt" and a "floating debt"

A funded debts is a debt, whose date of repayment is not known and not fixed or has no fixed date for repayment i.e. the government, has no obligation to repay it. The borrower keeps on paying interest until it becomes convenient to pay back the principal while a floating debt is a debt whose date of payment is known at the time of borrowing.

(f) (i) What is oligopoly?

(ii) Give two examples of imperfect oligopoly in Uganda.

(i)Oligopoly is a form of market structure in which there are a few in equal sellers selling differentiated or homogeneous produces.

(ii) The examples of imperfect oligopoly in Uganda include:

- Producers of Oil products e.g. shell Uganda, Caltex, Petro, Total and Kobil
- Mobile phone networks providers e.g. MTN-Uganda, CELTEL-Uganda one and MANGO-UTL telecel
- Soda drinks industry e.g. Coca-cola, Pepsi-cola and Vimto
- Beer industry e.g. Nile Breweries, Uganda Breweries etc

(g) (i) What contributions of different factors of production contribute to National income?

(ii) Why would you expect one firm to make super normal profits while another makes losses while they operate under conditions of perfect competition?

(i)The contributions made by different factors to National Income include:-

- Land – Rent
- Capital – Interest
- Labour – Salary and wages
- Entrepreneur – Profit

(ii) The firm-making super Normal Profits may be old efficient and operating at the optimum point where it incurs low or least costs of production. It may also have expanded on its scale of production hence enjoying economies of scale. On the other hand, the firm making losses may be a marginal firm and inefficient an operating at high costs. It could also have been over expanded leading to diseconomies of scale.

(h) What assumptions are made in the theory of international trade countries to benefit from it?

- Assumes two countries e.g. Uganda and Kenya
- Assumes two commodities e.g. coffee and tea
- Assumes labour to be the only factor of production
- Assumes that labour all over the World to be homogenous
- Supply of labour is constant and labour is fully employed
- Assumes constant technology
- Perfect mobility of factors i.e. factors of production are fairly mobile within country, but are completely immobile between countries.
- Assumes constant technology
- Perfect mobility of factors i.e. factors of production are fairly mobile within country, but are completely immobile between countries
- No transport costs involved in foreign trade
- Absence of trade restrictions i.e. trade between any two nations is free from kind of barrier.
- Barter trade system exists

- The rate of exchange between any two goods is determined by their labour costs
- Production of commodities is subject to constant costs or constant returns
- Absence of currency restrictions.

(i) Define commercial policy. Give any two commercial policy instruments used by your government.

A commercial policy is a government policy aimed at influencing directing and regulating the volume and value of trade. The commercial policy instruments used by Uganda include :-

- Tariffs
- Quotas
- Subsidies
- Exchange controls
- Devaluation
- Economic integration
- Discriminative practices
- Total ban/trade embargo
- Strict licensing
- Direct administrative control
- Liberalization

(j). Outline any four facts, which could be indicated by a plan strategy

- Financial resource mobilization
- Formulating objectives and goals
- Establishment of assessment policy
- Fixing of targets
- Types of technology to use
- Source of capital.
- Source of manpower to use .

P220/1 MARCH 1992

SECTION A:

1. (a) Below are the costs and revenue of a firm. Using the information provided answer the questions that follows:-

Out put (Q)	Total Revenue (T.R) in U.Shs	Total Costs (T.C) in U. Shs
0	-	1100
1	500	1400
2	1000	1620
3	1500	1750
4	2000	1800
5	2500	1850
6	3000	1940
7	3500	2190
8	4000	2600
9	4500	3250

(i) Is the firm under perfect or imperfect competition?

(ii) What are its fixed costs?

(iii) What are its total variable costs for the first two units of outputs?

(iv) What is the marginal revenue?

Answers

(i)It is under perfect competition because MR = AR = P all at 500 U. Shs.

(ii) Fixed costs = 1100 Ug Shs

(iii) Total variable costs for the first two units of output

<u>Out put 1</u>

TVC = TC – TFC

= 1400 – 1100

TVC = 300 Ug. Shs

<u>Out put 2</u>

TVC = TC - TFC

= 1620 – 110

= 520 – Ug. Shs

(iv) Marginal Revenue $= \dfrac{\text{Change in TR}}{\text{Change in Output}}$

MR = 500/= for all levels of output.

(b) Explain the meaning of: -

(i) Complimentary factors of production

(ii) Giffen's paradox

(i)Complementary factors of production are factor inputs in the process of production that are used together to enhance one another e.g. machinery and labour.

(ii) Giffen paradox occurs when the quantity demanded increases for an inferior good whenever there is an increase in its price.

OR

Giffen paradox explains how commodities of relatively low quality but form an important element in the diet of the poor people, command a relatively higher demand at high price than when they are at a low price.

(d) Distinguish between:

(i) Dividends and shares

(ii) Explicit costs and implicit costs

(i)Dividends refers to that part of a company's profit that a firm periodically pays out to its shareholders (as a return on their capital contributed) On the other hand, shares refers to the unit of capital contributed in the formation of a joint stock company.

(ii) Explicit costs are costs incurred by the firm and are included in the calculation of costs of the firm by accountants and they are calculated in monetary tersm. Explicit costs are classified into fixed costs and variable costs while an implicit cost refers to what is incurred to produce output but they don't appear in the accounting system of a firm and they cannot be determined in monetary terms e.g. efforts of owner's business.

(e) What is the role of price in a free market?

- Price influences the allocation of resources

- Determines what to produce and how to produce it
- Acts as an incentive to growth
- Ensures efficient utilization of resources
- Determines income distribution
- Help consumers make consumption plan
- Automatic adjustment of demand and supply
- Guides producers on what techniques to use

(e) Distinguish between substitution effect and income effects.

Substitution effect refers to the tendency by the consumer to substitute commodity whose price has remained constant for another whose price has factors especially for those goods that serve a similar purpose (substitutes) whereas income effect shows how the consumer buys more of a given commodity price has fallen because it appears as if his real income has increased.
Note: Both the income effect and substitution effect are a result of a price change (Or price effect)

(f) Explain why leisure is an economic good

- Its relatively scarce
- It commands prices
- Since it command prices, its marketable
- People derive satisfaction out of it.

(g) What is meant by International Cartels? Give one example of International Cartel

International cartel refers to a group of firms from different countries acting together to coordinate output decisions and control prices as if they were a single monopoly.

OR

It refers to an international agreement whereby producers from respectively member countries come together to fix prices and quotas in order to benefit from the production and marketing of their goods.

The example of international cartel is "OPEC" the organization of petroleum exporting countries.

(h) (i) Distinguish between social wealth and social welfare

(ii) Give two examples of each

(iii) Social wealth refers to the property/physical assets or stock of goods owned by the public, society or local authorities and it occurs in form of schools, roads, etc on the other hand, social welfare refers to the general well-being of the people as may be represented by the quality and quantity of social services available to them.

OR

Bet ham defined social welfares as the sum total of the happiness of all individual in society. It looks at the levels of education attained, the health facilities the quality of leisure etc.

(iii) Social wealth includes: -

- Schools
- Roads
- Public libraries
- Public hospitals

Social welfare includes:

- Levels of education attained
- The health facilities/conditions

The quality of leisure

- Employment
- Political stability
- High quality goods etc

(i) Differentiate between revaluation and over valuation of a currency

Revaluation refers to the appreciation of the country's currency resulting from surpluses in the current account, however, over valuation of a currency is that currency whose exchange rate is fixed above the fixed market rate (the equilibrium rate) i.e. at al level higher than its real market value.

(j) Give two differences between structural and frictional unemployment

- Structural unemployment refers to a situation where people become unemployed due to changes in the structure of an economy while frictional unemployment refers to unemployment that occurs during the time when labour leaves one job until a new one is got.
- Structural unemployment occurs due to structural rigidities in an economy's industrial sector while frictional unemployment occurs during the period when labour remains unemployed while in the process of switching fro one job in anticipation of getting another job.
- Frictional unemployment may result from the ignorance of the labour force of the existence of opportunities and geographical immobility of labour while structural unemployment result from the changes in the pattern of demand for goods that leads to unemployment of labour and capital in declining industries.

P220/2 MARCH 1992
SECTION A:

1. (a) (i) Distinguish between mobility of labour and division of labour.
(ii) How are the two interrelated?

Mobility of labour refers to the ease with which labour can move from one job or activity to another or from one geographical area to another when there is a change in the conditions in the labour market, on the other hand, division of labour refers to the allocation of tasks among the workers in production such that each worker engages in a task, which he performs most efficiently.

OR It is the breaking up of a production process into a series of repetitive tasks each done by a different worker.

(iii) The relationship between division of labour and mobility of labour is that the higher the divisions of labour the lower the mobility and vice versa

(b) (i) What is government multiplier?

(ii) How does government multiplier operate?

(i)Government multiplier refers to the number of times an initial change in government expenditure multiplies itself to give a final change in income.

(ii) The government multiplier operates through incurring various expenditures e.g. provision of infrastructures, expenditure on civil servants, expenditure on recurrent budget among other items.

(c) List four consequences of an inflationary gap

Positively an inflationary gap may

- Stimulates investments to fill the gap
- Stimulates hard work
- Increase tax revenue
- Increase producers' profit margin

Negatively it worsens the country's BOP Position

- Fuels inflation
- Causes industrial unrest
- Lowers standard of living
- Encourages speculative activities
- Discourage savings
- Distorts government planning
- Encourage dumping and this affect local infant industries etc

(d) Using specific examples from Uganda, distinguish between "footloose" and rooted industries

Footloose industries are industries that do not have any special locational pull. They can be set up any where while rooted industries are industries set up in specific areas due to special pull or location factors e.g. a cement industry can only be set up where there is limestone e.g Tororo Cement Factory

(e) Briefly explain the liquidity preference theory

liquidity preference is the desire by individuals and firms to prefer holding or keeping their assets/wealth in money / cash form for precautionary, speculative transactional and financial motives, liquidity preference may be influenced by the level of speculation, the price levels, income levels, the level of development of the financial infrastructure, and the degree of uncertainty as well as the level of transactions in the economy.

(f) State any four objectives of development

- To attain full employment or reduction in unemployment levels
- Minimizing inflation
- To reduce income inequality and poverty or equality of incomes distribution
- Avoidance of regional growth disparities within the country
- To attain a self-sustaining, integrated and independent economy
- To achieve a high rate of economic growth
- To reduce the balance of payment disequilibrium
- To attain Micro and Macro-economic stability

(g) (i) What is meant by vent for surplus theory in Economics?

(i) Vent for surplus theory is a theory that states that, the opening up of World markets to developing countries through international trade provides them with the opportunity to take advantage of formerly under utilized land and labour resources to produce larger primary product out put, the surplus of which produce can be exported to foreign market.

(g) **(ii) Mention two disadvantages of free trade**

- Loss of tax revenue to the government

- Allows importation of demerit/dangerous goods e.g. Opium
- Dumping i.e. it discourages production where goods are exported
- Discourage the growth of infant industries
- Balance of payment problems
- Leads to imported inflation ie. when commodities are imported from countries hit (prone) by inflation.
- Unemployment as a result of closure of domestic infant industries

(h) (i) Define proportional tax

(ii) Give any two merits of a progressive tax over a proportional tax

A proportional tax is that tax whose percentage is directly proportional to change in the levels of income.

OR

Proportional tax is a tax for which the percentage of income paid in taxes is the same regardless of the taxpayers' income. Both the rich and the poor pay a flat rate.

(ii)The merits of a progressive tax include

- Reduces income inequalities
- Increases government revenue
- Encourages hard work
- Reduces social tensions between the poor and rich
- Increases consumption of good consumed by the poor

(i) (i) Mention two disadvantages of an unplanned economy.

(ii) What effect would failure to raise foreign exchange have on a development plan?

(i)The disadvantages of un-planned economy include:-

- It gives rise to monopoly and its related disadvantages
- Escalates income inequality since wealth accrues only to the resource owners

- There is inability to cope with structural changes in society (due to the emphasis of the profit motive)
- Un necessary duplication of resources in the name competition
- Economic instabilities like inflation may result
- Escalates market imperfections like consumers ignorance in the market
- Misery and suffering among the people
- Unemployment occurs when inefficient firms are eliminated from the industry
- Over utilization of the country's resources for profit motive e.g. Forests
- Regional imbalances occur since urban areas are preferred for industrial establishments.
- Production of demerit goods since they command high prices

(ii) The effects include:-

- Failure to implement the development plan
- Decline in the economic performance of the economy
- Government resorts to borrowing so as to cater for the development and recurrent expenditure creating foreign debts and dependence.
- Economic misery and suffering of the people occurs in the economy

(j) (i) What is debt management?

(ii) State two fiscal policies and monetary policies of debt management used in your country.

(i)Debt management is concerned with the conditions of borrowing, maturing period and types of debts. It is aimed at stabilizing the economy by influencing the liquidity in the economy.

OR

It is the action of the fiscal/monetary authority to regulate the size and structure of the outstanding debt i.e. the type of debt, short term, long term etc.

OR

Debt management refers to the ways and means of how the public debts are administered i.e. how they are obtained, controlled, serviced and later on repaid.

(ii) Fiscal policies include

- Surplus budget to create sinking fund
- Exceptional financing
- Pay as you use method
- Imposing capital levy on the rich to generate more revenue

Monetary policies include

- Sale of government securities
- Outright borrowing from the central bank
- Use of reserves (government past saving)

P220/2 MAY 1992
SECTION A:

"Note that students were re examined in 1992 because of examination malpractice "

1. (a) (i) Distinguish between liquidity ratio and liquidity preference

(iii) Why is money held in cash form?

Liquidity ratio refers to the proportional/fraction of the total deposits of a commercial bank which is kept in liquid (cash form) or in form of assets that can easily be turned into cash whenever a need arises e.g. cheques, ATM Cards, Bank Drafts etc.

Liquidity ratio refers to the ability of the business firm to pay off its debts and remain operating.

Whereas

Liquidity preference refers to the people's desire to hold their wealth (assets) in cash form for speculative, precautionary, transaction and financial motives

(iii) Money is kept/held in cash form

- For transaction motive i.e. financing day to day transactions
- Precautionary motive where people have past experiences that make it necessary that they keep cash with themselves.
- For financial motive
- For speculative motive i.e. the business class is always on the look out for any viable investment opportunities that will bring quick returns in terms of increased profits.
- The high and always increasing prices necessitating the people to keep large cash amounts on themselves.
- The long payment interval by the employers in the country necessitates keeping some balances at hand.

(b) (i) Define marginal propensity to consume

(ii) What is meant by consumer surplus?

(i)Marginal propensity to consume (MPC) is the fraction of the consumer's additional income that is spent on consumption

(ii) Consumer's surplus is the extra utility a consumer enjoys without paying for it because the market price is lower than what he is willing to pay.

OR

Its difference between the maximum amounts (price) a consumer is willing to pay for a good and what he actually pay for it. (Illustration is vital)

(c) (i) Define the term economies of scale

(ii**) Distinguish between location of industry and localization or industries**

(i)Economies of scale refers to advantages accruing to a firm resulting from the expansion of its scale of production, leading to increases in its output and decreases in its costs of production per unit of output.

(ii) Location of industry refers to the establishment (or selling or placing) of an industry (various related firms) in a given area.

While

Localization of industries refers to the concentration of very man firms in a given area.

(d) (i) What is price discrimination? Give two examples of organizations in Uganda that practice price discrimination.

Price discrimination is a practice by a monopolist of selling the same product (or slightly differentiated) at different prices to different consumers even if the average costs of production is the same.

The examples of organizations in Uganda that practice price discrimination include:

- Legal firms and medical firms
- Uganda electricity board company limited (UDCL)
- National water and Sewerage Corporation
- Federation of Uganda football association for entry fee into the stadium
- Uganda railways corporation

(e) Give three conditions necessary for price discrimination to succeed.

The conditions necessary for price discrimination to succeed include

- A monopolist must sell the commodity
- Consumers must be ignorant of the price charged on different fellow consumers
- The costs of separating the market must be low
- There should exist different elasticity of demand for the commodity in the different markets.
- The market must be divided into sub-markets with different elasticity of demand
- The market for different classes of consumers must be separable so that buyers of low-price market are not in a position to resell the commodity in the high price market.

(f) (i) What is devaluation?

(ii) What conditions are necessary for devaluation to succeed?

(i)Devaluation refers to the legal reduction in the value of country's (home) currency in terms of other currencies of other countries. This is normally intended in encourage consumption of domestic products since it will make imports appear expensive, and encourage exports since it will make them appear cheaper on the foreign market.

(ii) The conditions necessary for devaluation to succeed include:-

- The demand for exports must be price elastic
- The demand for import must be price elastic
- Devaluation can be successful only if the affected countries do not devalue their currency in retaliation.
- There should be no smuggling of goods into the country
- There should be a large export base of a devaluing country

- The government should ensure that inflation is kept under control

(g) (i) What factors affect the population growth of a country?
(ii) Why does the population growth rate of a country tend to go down as the country develops?
(i) The factors that affect the population growth of a country include:
- Natural factors i.e. birth rates and death rates
- Artificial factors i.e. emigration and immigration
- Food production
- The fertility of women as well as childbearing age
- Government policy on marriage
- Medical care and the effect it has on mortality
- The level of development and effect on culture

(iii) It may be due to:-
- Strict government policies
- Development of education i.e. attainment of high education by women
- Family planning control methods
- Improved levels of modernization
- Social and cultural transaction/improvement

(h) (i) What is the difference between a firm and an industry?
(ii) Why do small firms continue to exist side by side with large firms in spite of advantages of economies of scale?
A firm is an independent production unit that employs factors of production to produce goods and services while an industry is a collection of firms dealing in the production of similar or related commodities e.g. the soft drinks industry with firms like Coca-cola, Pepsi-Cola, Cheers etc
(ii) **Small firms continues to exist because of the following**

- Limited capital that limits their expansion
- Fear of incurring high costs of production
- Existence of small market limiting expansion
- Provision of personal services requiring personal touch and customer care e.g. saloons.
- Interdependency between large and small firms
- Government policy of encouraging existence of small-scale firms e.g. limited taxes imposed on small firms.
- Absence of diseconomies of scale with small firms
- Easy management/flexibility of management
- Limited supply of raw materials/inputs
- They experience lower risks
- Technical requirement i.e. painting or shoe repairing remain small in size

(i)(i) What is economic rent?

(ii)Why is the price of land higher in urban areas than rural areas ?

Economic rent refers to the excess payment to a factor of production, which is over and above what is enough to keep it in its present use.

OR

Economic rent is the payment to a factor of production over and above its transfer earnings

(iii) The price of land is higher in urban areas than rural areas because:-

- Land in urban areas is on high demand because of the various activities in urban areas
- Land in urban areas has so many uses i.e. its occupationally mobile

(j)(i) What is meant by subsistence sector?

(ii) Give at least two features associated with subsistence production

Subsistence sector is a sector where production is directed towards satisfaction of own consumption. There is no production for the market and no linkage with other economies, however it is the surplus, which is exchange by barter methods or subsistence sector is where some resources are still unexploited and its common in rural areas where the majority of the commodities are meant for family sustenance and only the surplus is sold.

(iii) Features of subsistence production include

- Use of simple/rudimentary tools
- Mainly located in rural areas
- Have weak trading position
- low employment and low incomes
- reliance of family labour
- dependence on nature both climate and soils all of which

result into low poor quality yield.

- Low productivity
- Production is mainly for personal consumption
- Use of barter trade system in the exchange of goods
- Absence of profit motive

P220/1 MARCH 1993
SECTION A:

1. (a) (i) What is meant by scarcity and choice in economics?

(ii)Explain how the two are interrelated.

Scarcity refers to a situation that arises where there is less of a resource, an economic good or service than people would like to have if that resource were free. Scarcity for goods and services

relative to people's desire for them is due to the scarcity of those resources used in their production.
OR
Scarcity refers to the imbalance between our desires and the likely means a available to satisfy those desires, on the other hand, choice refers to the act of making the right decision whereby the most pressing want is satisfied first.

(iii) The two are interrelated in that choice is made because resources are scarce (limited)

(b) (i) Define "Income elasticity of demand"
(ii) Why may the income elasticity of demand for a commodity be negative?

Income elasticity of demand measures the degree of responsiveness of quantity demanded of a commodity due to changes in the consumer's income.
(ii) The income elasticity of demand for a commodity may be negative when the commodity in question is an "Inferior good" such that the demand for inferior good switch over the consumption of superior goods instead of inferior ones.

(c) Give four characteristics of an economy at "drive to maturity" stage of economic development

Drive to maturity is the fourth stage of growth according to Rostow, running between the take off and the high mass consumption stage. It is characterized by a long period of continued sustainable progress.

The stage is characterized by the following:

- Rate of savings and investment is as high as over 10-20% of national income
- New production techniques replace old ones leading to the production of high quality goods.

- There is self-sustenance and sufficiency
- The economy is able to withstand unexpected internal and external shocks
- Production and consumption of durable consumer goods
- Emergence of highly skilled industrial labour force
- Heavy industrialization taking place in the economy
- The economy becomes dominant and influential in international trade

(d) Explain why education is regarded as an economic good and a consumer good.

It is valued as an economic good because: -

- It is scarce
- It costs money i.e. commands price in form of school fees and other school requirements
- It has an opportunity cost e.g. present levels of consumption is foregone to attain education
- Utility is derived from its attainment
- Its marketable

It is regarded as a consumer good because:

- Its recipient derives utility from its acquisition
- It raises one's attitude as well as society's quality of life once attained
- It helps develop one's mental abilities once acquired

(e) (i) What is meant by real income?

(ii) Give two factors that affect real income

Real income refers to the measure of purchasing power of consumer's money income expressed in terms of goods and services that may be acquired out of it.

(iii) The factor that affect real income include:-

- Price level
- Level of income
- Availability of goods and services that it may buy

- Level of taxation
- Size of monetary/subsistence sector
- The cost of living

(f) Study the table below showing the terms of trade for country X (1976-1980) and answer questions that follows:-

	Export price index	Import price index	Terms of trade
1996	100	100	100
1977	142	108	
1978	120	114	
1979	128	132	
1980	154	173	

(i) Calculate the terms of trade for the years 1977-1980

(ii) Did country Y experience favourable or unfavourable terms of trade in 1979? Give a reason.

(i)Terms of trade (TOT) = ratio of price index of exports x 100
Price index of imports

Year 1977: 142/108 x 100 = 131

1978: 120/114 x 100 = 105
1979: 128/132 x 100 = 97
1980: 154/172 x 100 – 89.5

(ii) The country experienced unfavourable terms of trade because the ratio of a country's average export prices to its average import prices in the year 1979 was less than 100 or 1 i.e. it was 97 or 0.97.

(g) (i) Define the term advalorem tax
(ii) Give two examples of an advalorem tax in Uganda

(i) Advalorem tax is a tax levied on goods (imports) according to their value or is a tax where the rate charged is directly related to the value of the commodity in question.

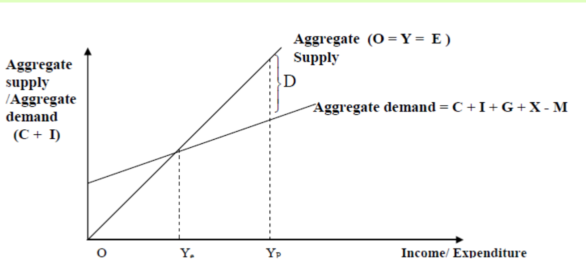
(ii) The examples include:

- Value added tax (VAT)
- Import tax on vehicles and machinery

(h) (i) What is meant by a deflationary gap

(ii) State three ways of closing a deflationary gap

A deflationary gap occurs when aggregate supply is more than aggregate demand at full employment level of national income or where national income is at equilibrium at a level that is lower than full employment, as illustrated below:



The ways/policies of closing a deflationary gap includes:-

- Expansionary monetary policies (extension of credit or loans) directed towards boosting demand (consumption) so as to match it with supply.
- Reducing the taxes, which would leave people with a higher disposable income to enable them buy the surplus output.
- Upward adjustment (increasing) of wages and salaries thus the people's purchasing power.
- Increasing government expenditure so as to increase money in circulation to facilitate purchase of goods

- Export promotion, which will close the demand deficiency
- Increase employment opportunities
- Discourage imports to encourage domestic consumption
- Increase producers' prices

(i) Distinguish between reserve requirement and marginal requirement policies of a central bank

Reserve requirement refers to a specific proportion of commercial bank deposits, which is required to be deposited with the central bank OR
It is a minimum percentage of deposits that a bank must hold in reserves to comply with regulatory requirements,
While
Marginal requirements refers to the difference between the value of the security required and the loan to be advanced.

(j) (i) What are parastatal organizations?

(ii) Give three problems facing parastatal organizations in your country.

Parastatal organizations are state enterprises established to carry on specific activities on behalf of the government, or parastatal organizations are state enterprises created by the act of the parliament mainly with aim of rendering certain services or producing certain goods for members of the public. They operate on a commercial basis and are profit motivated.
Examples of parastatal organs in Uganda by the year 2004 include: New Vision, Uganda Railways Corporation, Dairy Corporation etc.

(ii) The problems facing parastatal organizations include:

- Too much bureaucratic tendencies in making decisions and operation
- Corruption and embezzlement of funds
- Political interference

- Poor management miss management
- Suffer competition from private entrepreneurs
- Lack of adequate capital or limited finances
- Lack of interest amongst their Managers
- Limited market
- High production casts
- Limited skills

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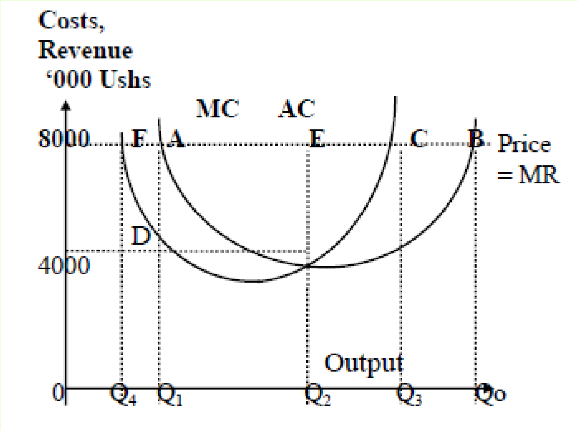
SECTION A:

1. (a) Study the figure below showing the costs and revenue of a firm under perfect competition and answer the questions that follow:



(i) State the:

Optimum size of the firm

The shutdown point of a firm

Average Revenue of the firm when output OQ2 is produced

(ii) Why do costs increase beyond output OQ2?

- (i) – Point D is the optimum size of the firm because its where the firm operates at the lowest point of the long run average cost curve.
- Shut down point is A because below this point, the firm closes down due to the fact that it cannot cover the average variable costs in the short-run.

Average Revenue of the firm when output OQ2 is produced is as follows:

AR = TR/Q or PxQ/Q

:- AR – 8,000,000 x Q_2/Q2
AR – 8,000,000 U. Shs

(iii) Costs increased beyond output OQ2 because of the economics of scale where by output increase with increase in the average variable costs.

(b) With examples, distinguish between derived demand and composite demand.

Derived demand is a demand for a good or service or a factor not for its own sake but for what it can produce e.g. demand for labour is derived from the demand for the goods that labour can produce, on the other hand, composite demand refers to the demand for a good that has several uses e.g. demand for electricity, which is used for cooking, ironing, lighting, running machines etc.

(c) Explain the difference between:

(i) Real economies and pecuniary economies of scale

(ii) Internal and external diseconomies of scale

Real economies of scale are benefits accruing to a firm operating on a large scale, in terms of saving on the quantity of inputs leading to falling average costs of production, while of pecuniary economies scale are those which accrue to large-size firms from discounts available to them to large scale purchases of raw materials, large scale acquisition of external finance at lower rate of interest particularly from commerce banks, lower advertising rates charged by the advertising media, confessional ration charged by the transport companies on bulk transport of goods e.g.% discount transport, 10% discount on purchase in bulk etc

(iii) Internal dis-economies of scale refers to the internal disadvantages which accrue o a firm as a result of expanding its scale of production leading to increase in the average costs of production.

While

External dis-economies of scale refers to disadvantages that accrue to the firm as a reason of many firms concentrating in a area leading to an increase in the costs of production a result of expansion of the industry as a whole.

(d) State the:

(i) Conceptual,

(ii) Statistical problems of measuring National income in your country

(i)Conceptual problems include:

- Difficulty in determining boundary of production
- Illegal activities
- Problem of valuing inventories and work in progress
- Existence of large subsistence output (sector)
- Valuing of unpaid services

(ii) Statistical problems include

- Inadequate data/information
- Problem of double counting/problems of transfer payments
- Difficulty in calculating depreciation of capital
- Difficulty in valuation of subsistence output
- Price changes/instability
- Difficulty in valuation of government services
- Unpaid for services
- Difficulty in valuation of government services
- Unpaid for services
- Difficulty in valuation of deprecation

(e) Distinguish between:

(i) Gross National Product (G.N.P) and Gross Domestic Product (G.D.P)
(ii) G.D.P at factor cost and G.D.P at market price

(i)Gross National Product (G.D.P) refers to the money value of all final goods and services produced by nationals of a country (living both within and abroad) during a given period of time usually one year, while Gross Domestic (G.D.P) refers to the money or market value of all final goods and services produced within the geographical boundaries of a country during a period of one year.
(ii) GDP at factor cost refers to the value of goods and services produced within the National considering only the sum of the incomes received by the factors used to produce them in a given year i.e. summing profits, wages, interest, rent etc while GDP at market price refers to the market value of goods and services produced within the Nation valued at their ruling market prices (or final prices to the consumers) in a period of one year.
(f) (i) What is meant by "take off stage" in the economics.
(ii) Give three conditions necessary for this stage.
Take-off stage is the third stage of the Rostow economic growth model where a country attains self-steady growth/progress i.e. self-reliant economy.
(iii) The conditions for the take-off include:
- A rise in the rate of productive investment from over 10% - 15% of National income.
- The development of one or more leading manufacturing sectors with a high rate of growth.
- Emergency of cultural framework that exploits the impulses to expansion in the modern sector.
- High levels of employment.

- A large monetary sector with a fading role of the subsistence sector.

(g) (i) Define the term "land tenure system".

(ii) How has agricultural production been affected by the land tenure systems in your country?

(i)Land tenure system refers to the right of ownership and use of land in a particular community e.g. in Uganda, there is communal tenure, land Lordism, peasant holding e.t.c.

(ii) Land tenure systems have affected agricultural production in the following ways:

- Peasant holding system has resulted into land fragmentation hence hindering mechanized farming.
- Communal ownership of land has encouraged subsistence farming hence low production / low productivity.
- Production of poor quality products.

(h) (i) Differentiate between nominal wage and Real wage.

(ii) Give two modes of paying workers in your country.

(i)Nominal wage refers to wage stated or paid to workers in monetary term e.g. a worker earning 20,000 shs a month While Real wage refers to the purchasing power of Nominal wage i.e. it is the basket of goods and services the Nominal wage can buy.

(iii) The modes of paying workers in Uganda include:

- Time rate system
- Piece rate system.
- Bonus system of paying.
- Profit sharing system.

✓ Sliding scale.

(i) Distinguish between trade creation and trade diversion.

Trade creation is a situation in International trade where as a result of economic integration, a country switches from the consumption of goods from a high non member country to low a cost member country. However, Trade diversion a situation that results from economic integration, where a country shifts from important of goods from a low cost non-member state to a high cost men state.

(j) What is the economic relationship between cash ratio, bank deposits credit creation?

A higher cash ratio reduces the bank deposit and therefore less credit is created when lower cash ratio increases bank deposits on reserve and therefore credit creation will be high.

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SECTION A:

1. (a) Explain the following terms as used in economics

(i) Laissez faire

(ii) Ceteris paribus

(i) Laissez faire means leave us alone or absence of government interference in the business affairs (life) of the Nation.

It is an economy where all economic activities are guided by the market forces of demand and supply. There is pronounced private enterprise and the price system is allowed to determine economic activities without any government interference.

(ii) Ceteris Paribus – is a Latin word meaning “other factors being equal or constant”, it is a term used to analyse the relationship between economic variables, assuming all the values of the influencing variables constant.

(b) (i) Distinguish between consumer surplus and diminishing marginal utility.

(ii) Explain how the two are related.

(i)Consumer surplus refers to the difference between the maximum amounts or price the consumer is willing to pay for the commodity and what he actually pays for it, OR it is the extra utility a consumer enjoys without paying for it because the market price is lower than what he is willing to pay. On the other hand Diminishing marginal utility states that each successive unit of a commodity yields less satisfaction than the previous unit.

(ii) As the marginal utility diminishes, consumers’ surplus also decreases because the consumer would be prepared to pay less for the additional commodities consumed.

(c) (i) Calculate the cross elasticity of demand if the price of commodity P falls from Ug. Shs 1000 to Ug. Shs.800 per unit and

the quantity demanded of commodity Q increases from 20 to 30 units per day.

(ii) How are commodities P and Q related?

(i) Cross el. Of dd = $\dfrac{\text{change in } Q_q}{\text{Change in P}} \times \dfrac{P}{Q}$

$$= \frac{30-20}{800-1000} \times \frac{1000}{20}$$

= - 2.5

(ii) Commodities P and Q are compliments for example car and petrol because as the price of one falls quantity of the other increases.

(i) (i) Distinguish between "vertical" and "horizontal" integration of firms.

(ii) Give two advantages of integration of firms.

(i) Horizontal Integration refers to a situation that occurs when firms producing similar or related products and at the same stage of development come together (combine / merge) to form one firm, while, Vertical integration refers to their assets of two more firms that are at different stages of production (but in the related industry) in order to enjoy economies of large scale production.

(ii) The advantages of integration of firms include:

- Merging reduces competition among firms
- It promotes effective administration as well as safeguarding against financial loss.
- It boosts the technical and managerial efficiency of such firms.
- It allows for the sharing of risks.
- Firms acquire a monopoly power and this assist in maximizing profits.
- Full capacity utilization.
- Firms can carry out joint research.

- Firms enjoy economies of scale
- Widening of capital base since there is pooling of resources.
- Improved management.
- More employment opportunities are created.
- Reduction in costs of advertisement

(e) Explain why average total cost (ATC) curve of a perfectly competitive firm is U shaped in the:

(i) Short run

(ii) Long run

(i)In the short run, ATC curve is U-shaped because of the law of diminishing returns.

(ii) In the long run, ATC curve is U-shaped because of economies and dis-economies of scale, i.e. below the optimum point, there are economies of scale and beyond the optimum point, dis-economies of scale sets in.

(f) Explain the meaning of the following:-

(i) Aggregate money demand in a closed economy

(ii) Aggregate money demand in an open economy

(ii) Aggregate money demand in a closed economy refers to the total amount of money needed by the households, firms and government for the purposes of consumption. Symbolically, its represented by;

Agg. Dd = C + I + G.

(iii) Aggregate money demand in an open economy is the total amount of money required by for consumption, investment, government expenditure and net external trade balance. Symbolically, its represented by;

Agg. Dd = C + I + G + (X - M)

(iv) (i) What is meant by the term "Investment"?

(ii) Why is expenditure on education and health regarded as investment?

(i)Investment refers to an addition to the existing stock of capital. It is the flow of expenditure devoted to projects producing goods, which are not intended for immediate consumption e.g. factories and industries.

- They have an opportunity cost i.e. foregoing present consumption to acquire education or health.
- They cost money.
- People derive utility once acquired
- They involve risks and un-certainties e.g. a risk of failing final exams.
- Increase society's quality of life once attained.
- Develop people's mental abilities once acquired
- They involve time preference i.e. benefits acquired in future.

(h) (i) State Irving Fisher's quantity theory of money
(ii) Given that the amount of money in circulation is 200 million Ug. Shs and its velocity is 10 and level of transactions is 40,000. Calculate the general price level in the economy.

(i)The quantity theory of money states that the general price level is determined by the quantity of money in circulation. The theory is expressed by the equation:-
MV = PT where M is money in circulation, V is velocity of circulation, T is the total of all transactions that take place and P is the general price level.
According to Irving fisher P = MV i.e. a change in any of the variable will influence the price.

(ii) $P = \frac{MV}{T}$

$= \frac{200{,}000{,}000 \times 10}{40{,}000}$

$P = 50{,}000$ Ug. Shs.

(i) (i) what is meant by "dual exchange rate"?

(ii) Explain why an economy may adopt a dual exchange rate system.

(i)A dual exchange rate system is where there are two exchange rates in an economy where one of which is favorable and meant for importation of essential or priority sector.

(ii) To encourage the importation of priority or essential goods, e.g. Machinery.

- To discourage the importation of luxurious goods.
- To make foreign exchange readily available to all categories of importers.
- To encourage the development of priority sectors.
- To promote investment in the country.
- To promote growth of infant industries.
- To enable investors obtain foreign exchange

(j) (i) What is ' a Turn Over Tax' ?

(ii) Distinguish between sales tax and capital gains

(i)A turn over tax is one imposed on sales of a business.

(ii)Sale tax is a tax imposed on total sales of a business, which should normally be done by the seller, **while**

Capital gain tax is a tax imposed on the gains made by the seller of certain capital assets whose value has appreciated considerably at the time of sale or it's a tax on the capital appreciation of assets.

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SECTION A:

1 (a) The price of sugar increased from Ug. Shs. 800 per kilogram to Ug. Shs. 1200 per Kilogram. The quantity of sugar supplied in the market increased from 2,000 tons to 5,000 tons.
(i) Calculate the price elasticity of supply for sugar.
(ii) Giving reasons briefly state whether supply is elastic or inelastic.

(i) $\text{Pes} = \dfrac{\text{Change in Qty}}{\text{Change in Price}} \times \dfrac{P_1}{Q_1}$

$$\text{Pes} = \frac{5000-2000}{1200-800} \times \frac{800}{200}$$

$$= \frac{3000}{400} \times \frac{800}{200}$$

$$\text{Pes} = 3$$

(ii) Elasticity of supply is elastic because the figure obtained is greater than 1.

(b) Relate the level of profits earned in an economy to:-
(i) Risks.
(ii) Innovations.

(i) The higher the risks, the higher the profits and vice-versa i.e. risky ventures tend to be more profitable.
(ii) High profits enhance innovations and increase innovations lead to high profits in an economy.

(c) What is meant by the following:-
(i) Accelerator principle
(ii) Multiplier concept?

(i) Accelerator principle explains the relationship between the level of investment and the growth rate of output i.e. it is the number of times an initial change in consumption multiplies itself to bring a final change in investment.

Thus Accelerator = $\frac{\text{Change in investment}}{\text{Change in consumption}}$

(ii) Multiplier concept shows the number of times an initial expenditure (spending) multiple itself to give a final change in National income e.g. the investment multiplier.

(d) State ways in which your country is economically dependant.

- Foreign capital dependence
- Technological dependence
- Trade dependence
- Man power dependence
- Ideological dependence

(e) Give four reasons why economic growth may not necessarily be accompanied by economic development.

- When there is no improvement in the quality of goods produced
- When there is un even income distribution existing in the country.
- When there is high un employment levels
- When there is no structural transformation of the society
- When there is high inflationary tendencies
- When there is high levels of foreign dependence
- When there is high social costs e.g. pollution.
- When there is hardly any leisure time
- When there is high expenditure on defense
- When there is increased production of capital goods at the expense of the consumer goods.
- Increased illiteracy and ignorance among the population.
- Increase public dept.
- Political instability e.t.c.

(f) State four disadvantages of Agricultural mechanization in developing countries.

- It creates technological unemployment.
- It promotes rural urban migration amongst the unemployed and landless.
- It disrupts the social set up and displacement of people.
- Inadequate market for output.

(g) Mention four methods that may be used by a trade union to settle industrial disputes

- Collective bargaining
- Strikes
- Boycott of the product
- Seminars
- Press wars
- Picketing
- Slow down of production
- Arbitration
- Industrial courts

(h) (i) Distinguish between “free trade area” and “common market”.

(ii) What are the advantages of economic integration?

(i)A free trade area is a form of economic integration in which there exists free internal trade among member countries, but each member is free to levy a different external tariff against non-member nations, however,

A common market is a fourth stage of economic integration characterized by a member complete absence of tariffs and other barriers on trade amongst member countries, and a common external tariff on goods from the non member countries, with a free movement of factor services within the region in form capital, enterprise and labour.

(ii) The advantages of economic integration include:

- It promotes trade creation effect
- It permits specialization among countries

- Allows full utilization of resources (i.e vent for surplus).
- Increases the gains from trade and reduces costs of duplication
- Encourages the development of the manufacturing sector.
- Expansion of market.
- Countries share common services e.g. railways
- Allows for greater cooperation among the member countries through friendly politics.
- Easy access to foreign reserves i.e. financing bodies can easily lend such an integration other than individual countries.
- Economies of scale i.e. countries to conduct joint research.
- Encourage industries to complete and improve the quality of products they produce.
- Increases employment due to factor mobility especially labour and capital.

(i) Define “balance of payment”.

(ii)State three ways of correcting a balance of payment deficit.

(i) Balance of payment is defined as a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a certain period of time.

It is the difference between a country’s foreign exchange earnings from her visible and invisible exports and her forex expenditure on visible and invisible imports during a certain period of time.

(ii) The ways of correcting a BOP deficit include:-

- External borrowing
- Use of foreign exchange reserves
- Increasing domestic production through import substitution industries.
- Reducing the excess demand or expenditure on foreign goods.

- Tight money policy and increased direct taxes to reduce disposable income and hence demand.
- Devaluation and exchange depreciation.
- Trade restrictions to discourage imports.
- Creation of peaceful, stable and conductive political atmosphere to reduce huge expenditure on military hardware.
- Export promotion to increase volume of exports.
- Manpower development to reduce expenditure on expatriates.
- Diversity export markets by joining regional cooperation.
- Export diversification to increase the country's earnings from abroad

(j)(i) Differentiate between managed and pegged exchange rate.
(ii) Give two disadvantages of "Floating the currency" in an economy.

(i) Managed exchange rate refers to exchange rate that is set to influence within the given limits, while, pegged exchange rate is one where the value of a currency in terms of another is determined by the government through the central bank or monetary authority.

OR

Managed exchange rate is where forces of demand and supply are t determine the exchange rate within certain limits determined by the monetary authorities.

(ii) **The disadvantages of floating the currency in an economy include:-**

- It leads to uncertainty in the forex market
- It encourages instabilities in exchange rates.
- It encourages speculation.
- It leads to inflation
- It leads to fluctuation of the foreign exchange earnings.
- It discourages long term contracts between borrowers and lenders and ths may discourage investments.

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