MAKINDYE SECONDARY SCHOOL

ECONOMICS GUIDE FOR THE SEMINAR QUESTIONS

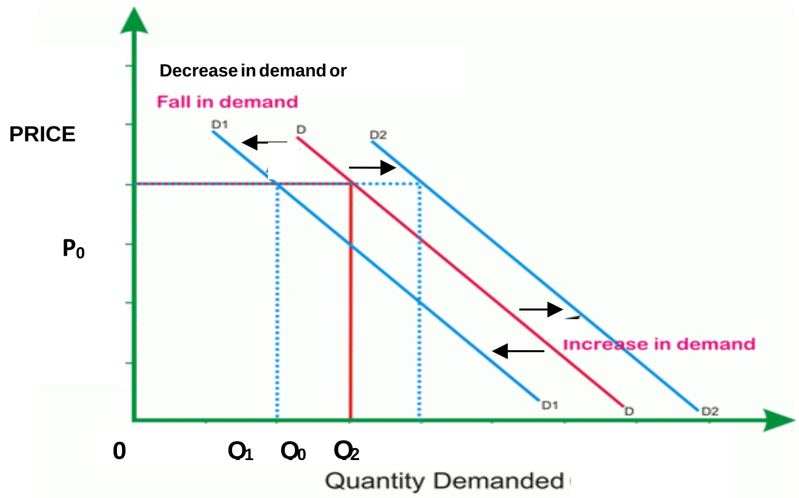
DATE: SUNDAY 14TH JULY, 2024

1. (a) Distinguish between change in demand and a change in quantity demanded.

A **change in demand** refers to an increase or decrease in the amount of a commodity demanded at a constant price due to changes in factors that affect demand.

It is shown by a shift of the demand curve either to the right or left of the original demand curve.

Illustration of a change in demand



Shift in Demand Curve

When the conditions for demand become favourable, the demand curve shifts from DD to D_2D_2 and quantity demanded increases from Q_0 to Q_2 while holding price P_0 constant. However, when conditions for demand become unfavourable, the demand curve shifts from DD to $D_1D_1$and quantity demanded decreases from Q_0 to Q_1 while holding price P_0 constant.

While

A change in quantity demanded refers to an increase or a decrease in the amount of a commodity demanded due to changes in the price of the commodity, other factors affecting demand remaining constant.

It is shown by a movement along the same demand curve.

Illustration of a change in quantity demanded

Extension & Contraction of Demand

$\Delta Px \rightarrow \Delta Qdx$

$\uparrow Px \rightarrow \downarrow Qdx$

$\downarrow Px \rightarrow \uparrow Qdx$

Here ΔQdx indicates the change in the quantity of demand if the price changes and as per the law of demand an inverse or opposite relationship between price and quantity demanded of a commodity is assumed.

(b) Explain the causes of an increase in demand for a commodity at its constant price.

Causes of increased commodity demand in a market economy

In summary, an increase in demand—the decision by consumers to buy larger quantities of a product at each possible price—may be caused by

- **An increase in the price of a substitute good.**
- **A decrease in the price of a complementary good.**
- Increase in the consumer's income.
- Increase in population size.
- Increase in the price of substitutes.
- Decrease in the price of jointly demanded product.
- Seasons becoming favourable for a commodity demand / change in season in favour of the commodity.
- **Expectation of future price increase**.
- **Tastes and preferences becoming favourable / change in consumers' tastes and preferences in favour of the commodity**
- Increased commodity advertisement;

2. **(a) Maximum price legislation** is the fixing or setting of prices of commodities by thegovernment below the equilibrium price above which it becomes illegal to sell the commodity. It protects consumers.

While

Minimum price legislation is the fixing or setting of prices of the commodities by thegovernment above the equilibrium price below which it becomes illegal to buy the commodity. It protects the producers.

Or

A government policy of setting price(s) above the market equilibrium price below which it isillegal to sell or trade.

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(b) (i) **Positive implications of minimum price legislation in an economy**

- Protects producers/manufacturers/suppliers from being exploited by strong buyers /consumers in form of under payment.
- Enables producers realize stable incomes especially in agricultural sector.
- Leads to increased production of goods/output hence economic growth.
- Enables an economy to off-set an economic depression/recession.
- Helps to establish industrial peace.
- Encourages production of essential products.
- Discourages consumption of undesirable products.
- Promotes popularity of the government with primary producers.
- Helps to reduce income inequalities in case it is set for those in lower income bracket.
- Leads to increased exploitation of available resources.
- Stabilises prices of the products.

Negative implications of minimum price legislation in an economy

- Leads to unmanageable surpluses and storage problems.
- Leads to high costs of administration / increases government expenditure in form ofbuying, storing and marketing of products.
- Promotes trade malpractices such as smuggling.
- It may be inflationary.
- Discourages consumption of highly priced essential goods.
- Promotes misallocation of resources.
- Leads to over exploitation of available resources hence their depletion.
- It leads to increased costs of production through fixing higher minimum wage.
- Prompts adoption of capital intensive technology leading to (technological) Unemployment.

ii) Positive implications of maximum price legislation in an economy

- Protects consumers from being exploited by traders.
- Controls monopoly power in an economy.
- Promotes price stability/controls inflation.
- Makes essential commodities available to all groups of people / increases accessto essential goods by low income earners.
- Discourages production of undesirable commodities such as alcoholic drinks/tobacco.
- Promotes popularity of the government with consumers.

Negative implications of maximum price legislation in an economy

- Leads to trade malpractices in form of smuggling, black marketing and hoarding goods. For example, due to demand exceeding the supply, there will be buyerswho will be willing to purchase the good at a higher price. This will lead to existence of black market.
- Leads to resource under-utilisation through production by firms at excess capacity.
- Leads to development of long queues at distribution points / centres.
- Increases government expenditure in form of controlling and enforcing it.
- Leads to unemployment due to reduced investment by private entrepreneurs.
- Leads to inefficient allocation of resources due to distortion of price mechanism/misallocation of resources (from production of goods with maximum prices toothers whose prices are at equilibrium or higher).

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- Slows down the rate of economic growth due reduction of goods and services.
- Acts as a disincentive to enterprise / discourages investment.
- Leads to scarcity of essential goods hence reduced consumer welfare.

3. (a) **Explain the causes of fluctuations in prices of agricultural products in Uganda.**

The causes of such fluctuations are as follows:

- Dependence on natural factors / the products are dependent on natural factors for production.
- Low price elasticity (Inelasticity) of demand of Agricultural products.
- The products are bulky which makes transportation difficult.
- The products are highly perishable making storage difficult.
- The products have long gestation period.
- Prices of the products are externally determined by the buyers.
- Divergence between planned output and actual output.
- Fluctuations in the costs of inputs.
- The products are income inelastic in demand.
- Difficulty in coordinating production plans because of many producers / producers base their current year production plans on previous year's prices.
- Weak commodity agreements.
- Innovation of raw material saving techniques.
- Poor surplus disposal system.
- Substitution of agricultural products with synthetic products / Development of substitute products for the agricultural products.

(b**) What are the effects of fluctuations in prices of agricultural products in Uganda?**

Effects of agricultural price fluctuations:

- Leads to unstable export earnings:
- Projected planning based on expected earnings is made difficult.
- Leads to unstable government revenue (fluctuations in government tax revenue):
- Leads to unstable balance of payments position:
- Leads to unstable incomes to the farmers in the country/ economy:
- Leads to unstable terms of trade:
- Problems of income inequality are worsened.
- It results into fluctuation of the exchange rates:
- Investment in the agricultural sector becomes uncertain:
- It results into seasonal unemployment (It worsens the unemployment problem).
- It encourages rural- urban migration and its consequences

(c) **Discuss the measures that can be adopted to stabilize prices of agricultural products in Uganda.**

Measures that can / may / should be adopted to stabilise prices of agricultural products in Uganda

- Operate buffer stock where the surplus is bought by marketing boards and sold in periods of scarcity.
- Use stabilization fund policy.
- Improve the storage system so as to stabilise / regulate supply.

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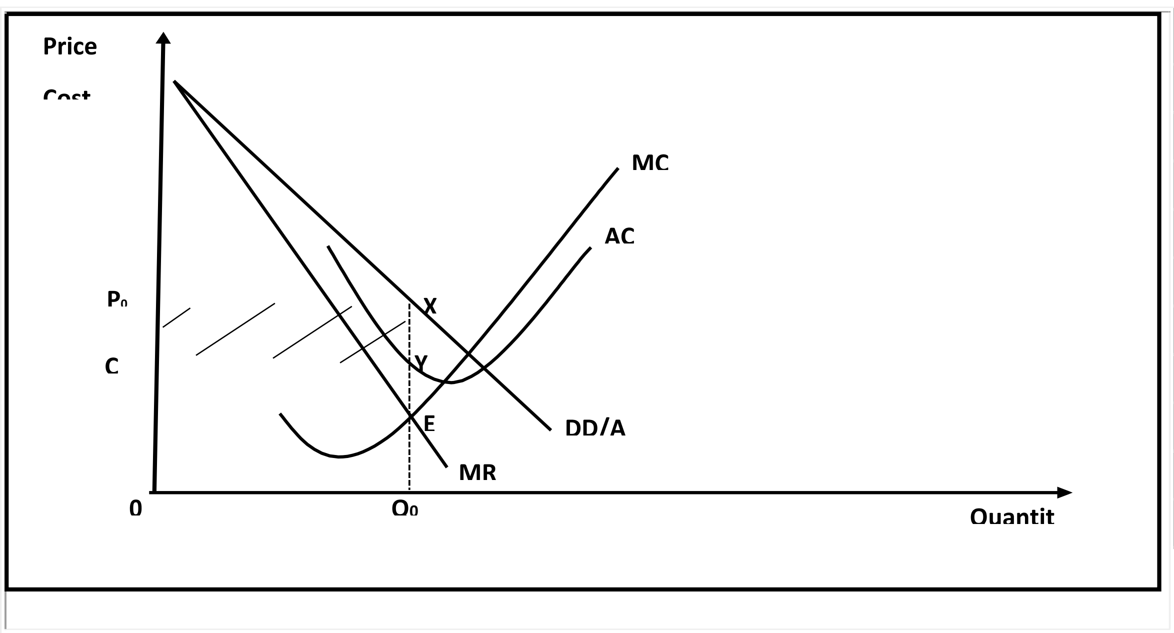
- Improve on the transport (disposal) system.
- Adopt modern agriculture practices.
- Encourage futures trade through contract farming.
- Set up / encourage agro based industries / There should be industrialization programmes to add value to raw agricultural products.
- Adopt a strict quota system on exports of agricultural products.
- Undertake market expansion and diversification.
- Strengthen / join or set up international commodity agreements.
- Encourage formation of producer and marketing co-operatives.
- Undertake diversification of agriculture / diversify the economy.
- Carry out minimum price legislation by the government.
- Subsidise farmers / provide tax incentives to farmers / stabilize costs of production.
- Provide affordable credit to farmers to buy necessary inputs
- Encourage proper planning of production

4. (a)Determination of equilibrium output, price and profits by a monopolist
   The firm is in equilibrium at a point where MC= MR in both the short run and long run.

Illustration;



Equilibrium output (profit maximising output) is determined at a point where MC=MR, that is at point E, and output Qo is produced.

Price of equilibrium output is determined by projecting the output line until it meets the AR/DDcurve at point X which corresponds with price Po.

The **AC** being lower than the **AR** (Or AR being greater than AC) at equilibrium output, the firmenjoys **abnormal or supernormal profits** shown by the **shaded area, PoXYC**

b) **Factors that give rise to monopoly / origin of monopoly / Sources of monopoly power in**

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- Patent and copyright privileges
- Long distance between producers / firms
- Parliamentary statutes
- Exclusive ownership and control of strategic raw materials (natural resources) / Control of Key Factor Inputs
- Small market size
- Limit pricing (policy)
- Huge initial capital requirement / high start-up costs / large start-up costs which are difficult to finance
- Long period of apprenticeship / training for example, architects, accountants, neurosurgeons
- Collusion of firms
- Product differentiation
- Protectionism in international trade giving rise to sheltered monopolies
- Dominance of scale effect leading to natural monopoly
- Ignorance of possible competitors / ignorance of consumers of alternative suppliers / market
- Economies of scale - the existing large producers are able to produce at a lower average costthan those just starting up.
- Merging of firms / cartels and common marketing policies

developing countries

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(c)**Measures that can / should / may be taken to control or regulate monopoly power indeveloping countries**

- Limit the duration of patent and copyright privileges
- Develop infrastructure
- Promote creation of consumer associations
- Anti-monopoly legislation for example, illegalize merging of firms that results in control of more than 40% of the national market by one firm
- Liberalise the economy / trade / remove unnecessary restrictions on imports
- Widen market to attract new firms
- Provide affordable credit / capital for the establishment of rival firms -
- Subsidise weak firms or firms providing is an essential public service / provide taxincentives to weak firms – can lead to a fall in the cost of production and increase in output

- Nationalise monopoly firms - the conversion of a private firm to a state-owned firm for the government to produce the good itself can allow for the benefits of economies of scale, leading to lower costs and prices
- Undertake marginal cost pricing - government can pass a pricing regulation that requiresthe monopoly to charge a price equal to its marginal cost leading to a fall in the price and an

increase in the output level) / maximum price legislation -price imposed is below thenormal equilibrium price as determined in a free market

- Establish public enterprises (to compete with private monopolies)
- Specify the minimum quantity of output to be produced by a monopolist
- Privatise public enterprises / state monopolies
- Strengthen the bureau of standards
- Tax monopolists by use of specific taxes -in the form of a fixed amount per unitpurchased and lump sum taxes –

5. (a)**Explain the forms of non-price competition used by firms in Uganda.**

Forms of non-price competition or measures taken by oligopoly firms to increase their sales

- Persuasive and informative advertising.
- Offering / provision of after sales services.
- Giving / offering free samples.
- Promotional games / offering prizes to lucky consumers during sales promotional games.
- Provision of credit facilities / installment purchase / hire purchase facilities.
- Promotional offers / promotional gifts to buyers of the products / providing free offers.
- Sponsoring events /activities especially entertainment, social causes and sports.
- Attractive (appealing) packaging / differentiated packaging.
- Organising and participating in trade fairs and exhibitions.
- Branding and rebranding /use of appealing trade names and slogans.
- Improving quality of the products / product development.
- Use of draws / raffles.

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- Opening multiple distribution points /opening of new branches and improving quality of shopping outlets.
- Use of one stop shopping centres at fueling stations.

(b) **Examine the effects of the existence of oligopoly in Uganda.**
Positive effects of oligopoly are thus

- Relatively low prices to consumers (due to economies of scale / the cost advantages of existing firms).
- Relative price stability due to collusion—that is, cooperation with rivals hence easens consumer budgeting / Price stability brings advantages to **consumers because it helps consumers plan ahead and stabilises their expenditure**.
- Production of high quality goods due to competition among the oligopoly firms.
- Variety of products availed to consumers hence widening consumer choices
- Provides employment opportunities due to the large size of oligopoly firms.
- Develops infrastructures. This is through construction of transport and communication facilities that are needed to promote trade.
- Contributes to economic growth by increasing output / producing a large volume of output of goods and services which increases on the national income of the country.
- Increases innovations and inventions arising out of competition / Technological advancement (due to increased innovations / research
- Contributes revenue to government (through taxation of the super normal profits enjoyed by the oligopoly firms).
- Enables firms to receive abnormal profits
- Consumers benefit from non-price competition (which enables them to make rational (efficient) decisions
- Increases utilisation of resources

Negative effects of oligopoly are thus

- **High costs of production** (due to intense sales promotional activities) / **high prices of final products** (due to high costs of competition).
- **Leads to duplication hence resource wastage** (due to unnecessary competition among the oligopoly firms).
- **Exploitation of consumers** through overcharging / overpricing due to collusion. Cartel-like behaviour reduces competition and leads to higher prices and reduced output.
- **Distorts consumer choices** (through persuasive advertising
- **Limited creation of employment opportunities / limited employment opportunities created** (due to restricted entry of new firms in the industry).
- **Worsens or causes income inequality problem** in the economy (because the sellers / producers generate super normal profits at the expense of other people in society).
- **Leads to collapse of weak / small firms** due to out-competition by the large firms that are more efficient leading to their closure.

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- **Underutilisation of resources / inefficient use of resources** due to operation at excess capacity since the firms are few.
- **Limited entrepreneurial development / limited investment** (because new firms are prevented from entering a market due to deliberate barriers to entry / a large capital outlay required for entry of new firms).
- **Industries with large firms exert pressure on government**. The firms tend to influence government decisions regarding taxation and environmental protection laws.
- **Limited variety of goods** (due to few firms in the industry or due to perfect oligopoly

6. (a)**Explain the approaches used to compile National income statistics.**

Income approach; This involves **adding up incomes** earned by the factors of production for their contribution in production of goods and services in an economy in a given year.

Expenditure approach: This involves **adding up expenditures** on final goods and services by the different spending units of the economy in a given year.

Product approach / output method / value added approach; involves adding up all the value added to output at each stage of production in a given year

b) **Importance of computation of national income statistics in an economy include:**

- Used to show the distribution of income.
- Used for purposes of planning e.g. making the national budget.
- Used to identify national expenditure patterns.
- Used for comparison of economic performance overtime.
- Used to compare standard of living between countries.
- Used to identify the leading and lagging sectors / determines sectoral contribution.
- Used for soliciting / requesting for foreign aid.
- Measures income per capita so as to determine the standard of living.
- Determines the rate at which the economy is growing.
- Determines the extent of dependence.

(c)**The difficulties involved in national income computation in developing countries**

Statistical or practical problems of measuring national income {i. e. difficulties arise inthe collection of required statistics in estimating national income}

- Difficulty in valuing self-services / unpaid for services because it is difficult to estimate themarket value of such services.
- Difficulty in valuing subsistence output / production for self-consumption
- Difficulty in valuing work in progress / problem of inventories

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- Difficulty in valuing government output / services such as defence, public education, and thebuilding and maintenance of roads and bridges; that are not sold in the market.
- Difficulty in determining net income from abroad
- Price instability / price fluctuations: market price of goods and services often changes which creates the problem in measuring national income, when the price level in the country rises, the national income also shows an increase even though the production might have fallen and when price level falls, National Income may show a decrease even though production may have increased.
- Difficulty in determining depreciation / Difficulty in valuing capital appreciation / changes in thevalue of capital / depreciation allowance
- Limited facilities
- Limited skilled labour
- Problem of errors and commissions

Conceptual or theoretical problems of measuring national income

- Difficulty in distinguishing between intermediate and finaloutput

- Difficulty in defining boundary of production: The major problem arises when defining the composition of national income. Ideally, national income includes all the goods and servicesproduced within a certain time period. But there are times when it is difficult to decide whichgoods to include and which to exclude.
- Problem of illegal activities: income from illegal activities such as theft, gambling etc. is notincluded in the estimation of national income yet such services also command a value and satisfy consumer needs hence national income is underestimated.

7. (a) Describe the procedure of compiling the cost of living index.

1. Selecting a representative basket of goods.
2. Choosing a base year i.e. a year where prices are relatively stable.
3. Getting prices of goods in the basket for the base year and the current year.
4. Attaching weights to the commodities in the basket:
5. Calculating the price relative/ simple price index for each commodity
   i.e. price relative = $\frac{\text{Current year price}}{\text{Base year price}} \times 100$
6. Calculating the average price relative/the simple index for the year i.e. average price relative = $\frac{\Sigma\text{Price relative}}{\text{Number of items}}$
7. Calculating the weighted index for each commodity. i.e.
   Weighted index = price relative index x weight
8. Calculating the average weighted index i.e.
   Average weighted index = $\frac{\Sigma \text{ weighted index}}{\Sigma\text{Weights}}$

(b) Explain the challenges faced while computing price indices

Difficulties encountered when computing consumer indices in Uganda:
Difficulty in getting a suitable base year with stable prices (due to price

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changes**).**
Difficulty in selecting a representative basket of goods (because of changes in tastes and preferences).
Limited data / information (e.g. limited data on people's expenditure patterns making it difficult to select a market basket /about prices of goods making it difficult to attach prices / about weights making it difficult to attach weights)
Difficulty in attaching weights to goods and services in the basket (due to changes in tastes and preferences / changes in spending habits that result in a change in the basket of goods consumed)**.**
Changes in the level of prices over-time / price instability (making it difficult to attach prices to the goods and services in the basket)**.**
Absence of standard weights, that is, products sold in tins, heaps and baskets (making it difficult to attach weights to goods and services in the basket**)**
Emergence of new goods and exit of old ones (due to changes in purchasing patterns making it difficult to select a representative basket of goods and services).
Absence of standard / uniform prices due to use of bargaining in price determination (making it difficult to attach prices to the goods in the basket)
Variation in prices in different regions/ areas (making it difficult to attach prices to the goods in the basket)
Limited facilities for collecting, resourcing and storing data (making it difficult to process and store data on prices, the goods in the basket and weights)
Limited personnel with appropriate / necessary skills needed for compiling relevant information (e.g. price collectors, surveyors of household spending etc. making it difficult to get a wide range of information to be used in determining the contents of the CPI basket)**.**
Changes in tastes and preferences (consumption habits) leading to continuous change in consumer spending patterns **(**making it difficult to select a representative basket of goods and services)
Improvement in the quality of the product which usually affects prices of the commodities (therefore the index has to be adjusted for the quality change hence making it difficult to attach prices to the goods in the basket).

8. (a) **Describe the structure of the industrial sector in Uganda**

(b) Assess the economic implications of the structure of the Industrial sector in Uganda

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a. Structure of the industrial (manufacturing) sector in Uganda	**b. An assessment of the economic implications of the structure of the industrial sector in Uganda**
A summary	Positive economic implications of the structure
Mainly dominated by small scale industries / mostly small and medium scale.	Provides employment to many people **(labourintensive)**
Mainly comprises of processing industries / mainly engaged in processing.	Provision of tax revenue to the government **(mainlyprivately owned)**

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Most of the firms in the sector are privately owned / mainly privately owned.	Utilises idle resources hence avoidance of wastage / addition of value (mainly engaged in processing /strongly agro-based)
Most of the firms in the sector use labour intensive techniquesof production.	Provision of linkages to other sectors of the economy (mainly engaged in processing / strongly agro-based)
The sector is mainly urbanbased.	Development of entrepreneurial skills (mainly smallscale)
Production of mainly low quality manufactured goods.	Low government expenditure on subsidisation (industries are mainly privately owned)
Many of the industries are agro-based / strongly agro-based.	Reduced dependence on imports (mainly productionfor the domestic market)
Mainly import substituting industries / production is mainly for the domestic market.	Reduced expenditure abroad (mainly import substitution industries)
Durable consumer goods industries are mostly assembly plants /mainly final stage plants.	
High level / component of imported raw materials and intermediate product content.	Negative economic implications of the structure
Limited linkages with other sectors in/of the economy.	Poor terms of trade (low quality of products)
Mainly produces low quantity output /mainly produce at excess capacity / low productivity / low employment.	Sectoral imbalance in development (limited linkages with other sectors of the economy)
Mainly unskilled and semi-skilled labour employed.	High prices of final products (high component of imported inputs)
Production of mainly consumer goods / final products.	Promotes income inequality (unequal sizes of firms with dominance of small scale production)
	Capital outflow (large scale industries are foreignowned)
	High level of environmental degradation in urban centres (mainly urban based /owned by profit

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	driven individuals who avoid cost of waste management)
	Dependence on external resources (high componentof imported inputs)
	Balance of payments (BOP) problems (high component of imported inputs /low volume of exports because production is for local consumption)
	Low output hence low economic growth (mainly lowquantity of output is produced)
	Low quality of output (mainly labour intensive / unskilled labour)
	Imbalance in regional development (mainly urbanbased)

9 (a) **Bilateral aid is assistance that is offered directly from one government/country to another.**

While
Multi –lateral aid is assistance offered through international aid agencies like the World Bank and IMF.

b) The rationale of giving foreign aid by the donors include:

- To enhance their own security.
- To achieve a country's diplomatic goals
- For spreading its language, culture, or religion.
- For philanthropy / To relieve suffering caused by natural or man-madedisasters
- To promote political ideology.
- For economic motives e.g.to develop new markets /to dispose off surpluses
- To establish or strengthen political institutions
- For political dominance

c) **Positive effects (benefits) of relying foreign aid in developing countries**

- Fills the savings-investment gap
- Fills the manpower gap
- Closes the technological gap
- Fills the foreign exchange gap
- Fills the government-revenue expenditure gap
- Alleviates negative effects of natural and man-made catastrophes
- Increases skills of labour
- Strengthens relationship between countries (which increases the volume and valueof international trade).
- Increases utilization of idle resources

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- Diversifies the economy
- Increases the economic growth rate
- Creates employment opportunities
- Facilitates development of infrastructure
- Accelerates industrial development
- Promotes political stability
- Reduces the burden of taxation on citizens

Negative effects of relying on foreign aid (problems associated with relying on foreign aid) in developing countries

- Aid in the form of dead weight debt is a burden to future generations.
- Encourages laziness (due to continued expectation of regular foreign or donor resources free of charge) / kills initiatives / stifles initiative (due to reliance onforeign technology) / increases economic dependence).
- Hinders growth of some consumer goods industries
- Undermines capital formation (due to debt servicing and debt repayment / external debt-servicing obligations).
- Makes planning difficult (due to aid being inadequate, inconsistent and tied).
- Erodes social values / leads to cultural erosion
- Leads to unemployment / low employment creation (due to automation).
- Undermines political sovereignty
- Leads to loss of highly skilled labour to foreign countries (due to brain drain).
- Under utilisation of local resources
- Aid in the form of funds is put to waste by politicians through corruption
- Leads to economic domination of the country by foreigners
- Sometimes preset conditions are disastrous
- Aid in form of consumer goods may sometimes be expired / dumping

10. "**Economic growth in Uganda has both benefits and costs." Discuss.**

Positive effects	Negative effects
Provides employment opportunities due to increased investment / expansion of production scale leading to hiring of more labour **Facilitates development of labour skills** through training / skilling on the job on how to use modern physical capital **Encourages exploitation of resources** due to increased use of inputs / raw materials to	**Increased environmental pollution** of noise, air and water / increased environmental degradation due to poor waste disposal from the many economic activities hence reduction in quality of life **Results into congestion** due to increased urbanisation. **Causes over exploitation of non-renewable resources** leading to **depletion** of the non-renewable

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increase output hence avoidance of wastage **Promotes development of entrepreneurial ability** through training of individuals who are willing to take risks from the new market opportunities, so as to earn profits. **Promotes infrastructural development** through the setting up of facilities to sustain and support production of goods and services / through investors being actively involved in constructing roads to reduce the cost of moving raw materials, labour and final products to where they are needed. **Reduces dependence on other economies** through domestic production of previously or formerly imported goods **Widened consumer choices** due to availability of a variety of goods and services **Enhances technological development** due to innovations and inventions through research hence production of high quality output. Leads to **increased industrialisation / diversifies the economy** through promoting the expansion of the manufacturing sector hence increased economic activities. **Improves balance of payments position** due to increased exports that bring in foreign exchange and reduced imports / **increases foreign exchange earnings** due to increased exports of goods and services. **Breaks / reduces conservatism or cultural rigidities or backwardness** **Provides revenue to government** through taxation of the numerous economic activities **Reduces / controls inflation** due to increased output.	resources / overconsumption of natural resources needed by future generations. **High level of industrial hazards or occupational hazards** like accidents hence loss of life and bodily injuries. **Causes problems of rural-urban migration and the negative effects** like poor sanitation. **Widens inequality in distribution of income and wealth** as the rich invest in productive activities and become richer at the expense of the poor. **Leisure time is foregone** since economic growth requires hard work; as most of the time is used for the production of goods. **Technological unemployment** due to technological progress that replaces human labour with machines/ leads to **unemployment** due to automation (use of machines) and exit of inefficient firms from production. **Erosion (decline) of socio-cultural values** (there is cultural decay / deterioration in cultural values / leads to individualism /loss of cultural identity) given that the local social values are substituted with foreign values. **Current consumption is sacrificed for future investment / sacrifice of present consumption in order to save for investment** hence low quality life at present. **Worsens the debt burden due to high / increased dependence on external resources** i.e. overreliance on borrowed funds with high interest repayment obligations. **Low quality of output** due to low level of technology used in production.

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	Profit or resource repatriation where investments / production units are foreign owned There is **displacement of people from their land** in a drive to set up new industries and to create space for expansion of existing investments.

11. (a) **Discuss the merits of natural resources exploitation in Uganda.**

- Increases domestic revenue
- Increases inflows of foreign exchange
- Creates employment opportunities
- Facilitates development of manufacturing industries
- Promotes economic growth
- Promotes infrastructural development
- Promotes diversification of the economy.
- Promotes investment / capital inflow.
- Promotes the development of labour skills.
- Facilitates innovation and inventions / research / technological development / technological transfer.
- Promotes development of entrepreneurial skills.
- Improves balance of payment position.
- Encourages skill development.

(b) Explain the challenges faced during the exploitation of natural resources in Uganda. Same as;

Factors that limit the level of utilisation of natural resources in Uganda

- Limited labour skills
- Poor land tenure system
- Poor entrepreneurial ability
- Small markets
- Under-developed infrastructure
- Poor production techniques leading to high operating cost of extracting resources
- Low level of accountability / Corruption
- Unfavourable government policy of investment / insufficient incentives given to investors / players in the resource sector
- Conservatism for example **attitudes based on a belief in the inalienable right of humans to harvest whatever they desire from nature, without consideration of pollution, threats to species, or the availability of**

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resources for future generations.

- Low level of monetisation of the economy
- Poor political atmosphere
- Limited capital
- High rate of inflation / high rate of price instability
- Limited diversification of the economy / low level of industrialisation
- Limited knowledge of the available resources, how to utilise them and benefits derived from their utilisation, **for example** lack of systematic knowledge, data and monitoring of groundwater aquifers.

12. (a) Keynes suggested that Aggregate demand can be increased by using the followingmeasures/solutions:

- ❖Reduce direct taxes/ reduce taxes on income.
- ❖Subsidization of consumers.
- ❖Use of expansionary monetary policy.
- ❖Increase government expenditure.
- ❖Increase wages of labour.
- ❖Encourage private investment through provision of incentives like tax holidays.

b) The applicability (relevance) of Keynesian theory of unemployment in developing countries

Keynesian theofyunemployment has some relevance in developing countries as justified below:

- ✓ At times unemployment in developing countries results due to fall in demand, both domestically and abroad.
- ✓ In developing countries there is an element of industrialisation hence the theory ofKeynesian unemployment may not completely be ruled out.
- ✓ In the long run, as supply of co-operating factors for labour increase, the theory islikely to become relevant / applicable.
- ✓ There is an element of monetisation in developing countries therefore; the theorycan be applicable to the monetised sector of the economies.
- ✓ The private sector although small, is growing in developing countries and the theorycan be applicable to the private sector of the developing countries.
- ✓ Investment climate affects employment levels and therefore promotion of investment in developing countries will expand employment as stated by Keynes.
- ✓ Measures to stabilise export earnings through IMF compensatory arrangements toensure stable export markets can reduce unemployment.
- ✓ The use of expansionary monetary policy as suggested by Keynes has some application in developing countries because it increases the purchasing power of the people.

c) Why the Keynesian theory to unemployment is not relevant to developingeconomies (limitations):

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- The theory is based on the assumption of a closed economy but developing countriesare open economies.
- It is mainly concerned with demand deficiency yet unemployment in developingeconomies is mainly due to limited supply of cooperate factors.
- Increasing the level of aggregate demand to solve the unemployment problem tendsto be inflationary in developing economies.
- High marginal propensity to import in developing economies reduces multiplier effectsand therefore employment at home.
- The theory is based on the assumption of a big and strong private sector yet indeveloping economies the sector is small and weak.
- The theory emphasizes the investment multiplier as the major contributor to employment yet in developing economies it is the export multiplier.
- The theory can be effective in industrialised economies but not in developing economies which are largely agro-based.
- The theory is based on the assumption of a highly monetized (industrial) economyyet developing economies are largely subsistence economies.
- The theory can be applicable and effective under the condition of full employmentwhich condition does not exist in developing economies.
- Factor, money and product markets are not as functional in developing economies asthey are in developed economies.

- Firms in developing economies due to structural rigidities tend not to respondquickly and effectively to changes in demand.

13. (a) **Distinguish between voluntary unemployment and involuntary unemployment.**

Voluntary unemployment is a situation in which people who are able are not willing to work (at the ongoing wage rate) yet employment opportunities exist.

Or

Is one in which labour is not willing to work at the ongoing wage rate yet there are jobs.

While

Involuntary unemployment is a situation in which people who are able and willing to work at the current wage rate are unable to find jobs.

Or

Is one in which labour is willing to work but is unable to find work at the ongoing wage rate.

(b) **What are the causes of disguised unemployment in an economy?**

Inadequate supply of capital which limits expansion of production units leading to employment of many workers in the small scale firms.
Nepotism which results into over recruitment of labour in some jobs.
High population growth rate leading to increase in labour supply hence causing employers to employ excess labour in a given job.

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Poor and unco-ordinated manpower planning which results into excess labour supply in some jobs.
Poor land tenure system which causes shortage of land hence encouraging small scale subsistence agriculture in the rural areas.
Inadequate skills which limits specialisation of labour in the production process thereby, employing too many people in a given job or sector.
Limited information about the existing jobs which limits mobility of labour as many people remain employed in a specific job.
Excess supply of labour to an occupation which results into increase in job seekers without increasing the number of job opportunities.
Desire to retain workforce for future use because an industry with hopes of expanding in the near future.

(c) **Explain the effects of unemployment in an economy?**

Costs or negative effects or demerits of unemployment in an economy
Give the 'why' in the explanation
Leads to deterioration or decline in the level of acquired skills / people **lose their working skills.**
Leads to small market size / low aggregate demand for goods and services / lower total (aggregate) demand
Worsens income and wealth inequality
Results into low production or low output hence low economic growth rate
Leads to dependency burden / increases the dependency burden of the unemployed on the employed / strains the working population leading to low savings.
Leads to low government revenue
Leads to high crime rates and social evils (immorality) / leads to crime and immorality
Leads to brain drain.
Leads to rural-urban migration with its associated evils.
Leads to high government expenditure (on the unemployed).
Leads to low standards of living (well-being), stress and much human misery
Leads to under-exploitation (under-utilisation) of productive resources hence wastage / a waste of scarce resources

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Creates political tension or leads to political unrest / instability.
Discourages investment in education
Leads to increased social unrest / instabilities in families

14. (a) **Functions of banking financial intermediaries (Commercial Banks).**

NB: (These are mandatory duties of any commercial bank)

- Accepting deposits.
- Advancing loans to trustworthy customers.
- Acting as custodians of their customer's valuables / clients.
- Issuing of various forms of instruments of credit / provide easy means of paymentsuch as cheques, drafts, credit and debit cards.
- Issuing letters of credit to and act as referees to their clients.
- Providing advice to the investors on possible investment choices.
- Underwriting shares and debentures of companies as wells as discount bills of exchange/ financial securities.
- Acting as trustees and executors of property and will of their deceased clients/customers.
- carrying out exchange of currencies of different countries.

b) Contribution of banking financial intermediaries / commercial banks

Positive contribution

- Promote increase in output hence economic growthEncourage / mobilise savings.
- Provide employment opportunities
- Implement monetary policies, for example contractionary policies for fightinginflation.
- Promote investment / promote growth of enterprises
- Provide revenue to the government in form of taxes.
- Facilitate international trade
- Monetise the economy
- Finance consumption by lending to households for consumption ofdurable goods hence increased consumer welfare.
- Increase utilisation of idle resources / make optimum utilisation of resourcespossible.
- Develop infrastructure through construction of buildings, housing estates forthe poor.
- Reduce dependence on other economies for capital.Improve balance of payment position
- Train local manpower in the field of management and banking Promote international trade
- Improve efficiency in few indigenous banks because of competitiveness of foreign banks

- **Negative contribution of banking financial intermediaries banks**

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- Increase income inequality because the owners accumulate more earnings compared to the local people.
- Promote regional imbalances because of concentration of activities in urban areas. Limited employment creation
- Encourage capital outflow in form of profit repatriation.
- Charge high interest rates on borrowers and give low interest rates on depositors(savings).
- Discriminate in their lending policies, for example they rarely lend to peasantsalways preferring business people.
- Encourage economic dominance by foreigners hence out competing of indigenous commercial banks.
- Limit the effective implementation of monetary policy of the central bank becausethe have excessive liquidity.
- Their existence increases economic dependence by increasing reliance on forei investment.
- They limit government tax revenue because of tax concessions or tax holidaysgiven to them.
- Increase the problem of rural urban migration and its negative effects on theeconomy because of their concentration in urban areas.
- Out-competing the locally owned commercial banks and other financialinstitutions.
-

c) Challenges / problems faced by banking financial intermediaries in developing countries

- Limited skilled labour / limited skills of labour / inadequate professional skills/ shortage of trained and efficient human resources in the sector leading topoor quality of services
- Limited capital
- Poor banking habits resulting in limited savings and a massive contraction ofliquidity and credit availability.
- High operational costs due to high taxes, rent, large branch networks and the high cost of staff, maintaining an impressive building and conveniently located branches, and advertising and marketing to entice customers to deposit their funds with a given bank etc.
- Few credit worthy borrowers leading to the problem of non-performing loans
- Political instability / high levels of insecurity in some areas.
- High rate of inflationary tendencies leading to high costs of operation
- Limited collateral security as a result banks have become more reluctant to extend credit to new loan customers.
- Political / government interference especially in lending and loan recovery.
- **Limited facilities / poor technology** limiting the use of innovative technologies, including IT, to deliver banking services.
- **Poorly developed infrastructure**
- Conservatism / cultural rigidities due to negative **social (including superstitious and religious) elements.**
- Ignorance of the people of the services provided by commercial banks / ignorance of the people of banking services / high level of illiteracy of some of the bank customers

due to limited knowledge of banking products on offer resulting in limited demand for banking services.

- Interference by the Central Bank e.g. restrictions on the money supply limits the lending capacity.
- High liquidity preference because *a good part of the economy is not monetized*.
- High rate of corruption among bank officials /low rate of accountability in the banking sector resulting in imprudent and insider lending hence bad loans

15. (a) CAUSES OF INFLATION – a summary {SPRINGBE6D}

- ✓ **S**peculation by **businessmen** and **consumers**. ⇒
- ✓ Political instabilities in some parts of the country
- ✓ Rising costs of production
- ✓ Importation of goods from countries experiencing inflation
- ✓ Natural hazards
- ✓ Greed for higher profits by traders
- ✓ Break down of infrastructure
- ✓ Excessive issuance of currency
- ✓ Excessive government expenditure
- ✓ Excessive exportation of essential goods
- ✓ Excessive inflow of incomes from abroad
- ✓ Excessive borrowing from the central bank by the government
- ✓ Excessive credit creation by commercial banks
- ✓ Depreciation of local currency

(b) **Reasons for control of inflation**

- To discourage / reduce brain drain.
- To reduce income inequality.
- To encourage savings.
- To encourage / attract both local and foreign investment.
- To encourage / promote efficient utilization of the available resources.
- To improve balance of payment (BOP) position.
- To discourage or minimise evil / illegal activities caused by inflation.
- To discourage speculation by both the producers and consumers / tominimise hoarding of goods.
- To build or create confidence in the local currency / to minimize public resentment of the government in power / to minimise politicaldiscontent.
- To maintain the welfare of the people / to improve the living standards of the people to i.e. to encourage the consumption of high quality goods and services and hence increased welfare.
- To make planning efficient by the government and individuals.
- To minimize the straining of the people in their effort to work.
- To promote economic growth
- To create more employment opportunities.
- To encourage lending / to protect creditors.
- To minimise industrial strikes

(c) Measures which should be undertaken to reduce/ control inflation indeveloping countries:

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- Increase direct taxes or increase taxes on incomes.
- Reduce government expenditure on non-essential goods.
- Further liberalise the economy .
- Provide tax incentives to investors /Subsidise producers.
- Develop infrastructure.
- Implement / undertake a restrictive or contractionary monetary policy.
- Control issuance of currency.
- Modernise agriculture to increase supply of food items in the country.
- Privatise public assets or state enterprises .
- Encourage importation of essential goods and services from cheaper sources tosupplement domestic supply.
- Improve the political atmosphere or stabilise the political climate .
- Reduce government borrowing from the Central Bank.
- Regulate / discourage exportation of essential goods.
- Encourage the establishment of import substitution industries / promote industrialisation / undertake import substitution industrialisation .
- Undertake contractionary / restrictive monetary policy e.g. selling governmentsecurities
- Encourage the use of instruments of credit by the public .
- Use price controls especially maximum price legislation / Administrative control e.g. price legislation and rationing / *administrative price-setting* measures(In some cases the government may directly set prices to prevent high food and fuel prices from passing through).
- Currency conversion / reform
- The government should reduce indirect taxes on essential goods
- Wage freeze and wage restraint should be enforced / undertake wage freeze and wage restraint measures / policies /Holding down wages for workers

16a) Explain the principles of planning.

Essentials / Features / Characteristics of a Good DevelopmentPlan	Principles of Planning	**Relevant explanation**
It should be comprehensive	***Comprehensiveness***	It **should cover all sectors and all regions** of the economy.
It should be economically feasible	***Feasibility***	A plan **should be achievable within the available economic means /resources and the set time period**.
It should be socially relevant	***Social relevance***	It should **address the macro economic and social problems of the country**. i.e. should address the needs and problems of the local people for effective implementation or popular participation.

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It should be politically acceptable	***Acceptability***	It should be acceptable to politicians tensure allocation of resources to the plan as well as to avoid interference in planning. OR A plan **should be acceptable to the government in power which is toimplement it.**
It should have anelement of proportionality in the allocation of resources	***Proportionality***	Resources **should be allocated to sectors or projects according to their significance to the economy or contribution to GDP**. For example balanced in relation to the social and economic overheads, capital and labour intensive techniques of production
It should be fairly simple / it is simple	***Simplicity***	A good development plan should be realistic in relation to the prevailing economic, political and social set up of the economy and easy to understand by both plan formulators and implementers for it proper implementation.
It should be sequenced	***Sequence / sequencing***	It **should enable the establishment of projects in a timely manner in order to create linkages between projects, sectors and the economy as a whole** For example, projects which are to produce inputs for others should be established first to ensure input/output linkage
It should have an element of compatibility	***Compatibility***	The **plan objectives should not conflict with the objectives to the already existing projects or government ideology or and socio-cultural mores of the people in the country**

		For example the development of one project should not kill the development of others.
It should be optimal in the use of resources	***Optimality***	A plan **should aim at utilizing the available resource most efficiently so as to produce maximum possible output with minimum wastage**.
It should have an element of continuity	***Continuity***	A good plan **should not be suddenly ended because the authorities of the day cannot identify with it despite its social and economic relevance**

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It should beconsistent	***Consistency***	A good plan should be in line or match with the targets and objectives of development and the financial and manpower resources available. For example, planned investment should not exceed the anticipated supply of funds/ resources
It should be internationally acceptable andrelevant		A good plan should be acceptable to donors for possible funding and should take into consideration international forces that are likely to affect its effective implementation.

b) Reasons for carrying out decentralised planning include;

- To promote use of local resources.
- To ensure balanced regional development.
- To attain efficiency in resource use
- To ensure that each area takes full advantages of its priorities/interests.
- To reduce rural urban migration and its evils.
- To reduce the chain of bureaucracy/red tape.
- To ensure equity/fairness in income distribution.
- To promote a sense of belonging and commitment to encourage public participation.
- To ensure fair distribution of employment opportunities.
- To promote division of labour between the local and the central government.

17. (a) Trade liberalisation is the removal of unnecessary controls on trade thereby giving

people the liberty to trade without undue government controls like **total ban, quota system, tariffsand administrative controls** to increase value, volume and benefits of trade.

Or

Is the removal of unnecessary restrictions to trade by relaxing the use of instruments such as **quota, total ban, tariffs and administrative controls** in order to give people opportunityfor increased participation in trade?

b) Implications of liberalisation of the economy in Uganda.

POSITIVE IMPLICATIONS OF LIBERALISATION OF THE ECONOMY IN UGANDA
❖ **Increases employment opportunities** due to increased trade activities that hire labour
❖ **Increases level of output** hence higher economic growth rates

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- **A variety of goods and services are produced thus** consumer's choice is widened
- **Reduces income and wealth inequalities among people in various regions** since everybody has freedom to invest and produce.
- **Upholds consumer sovereignty /** consumer sovereignty is maximised
- **Encourages foreign investment / resource inflows** due to enhanced market access
- **Efficiency of firms** due to competition.
- **Fights corruption** due to reduced cost of doing business.
- **Promotes balance in regional development.**
- **Promotes infrastructural development to promote trade activities.**
- **Improves relations with other countries especially donors.**
- **Promotes economic diversification**
- **Promotes development of entrepreneurial skills**/ creates incentives for innovation & enterprise.
- **Helps to develop labour skills**
- **Encourages resource utilisation** hence minimising existence of resources that would have remained idle.
- **Controls structural inflation** due to attraction of more investors who increase output of goods and services. This helps to control inflation which arises out of supply rigidities in Uganda.
- **Improves quality of goods and services** due to stiff competition among producers
- **Increased tax revenue** due to a widened tax base from the many economic activities set up.
- **Encourages inventions and innovations** through research / **encourages technological development** through research in more efficient production technologies / **encourages**
- **technological transfer** due to introduction of new ways of production
- **Improves the balance of payment position**

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NEGATIVE IMPLICATIONS OF LIBERALISATION OF THE ECONOMY IN UGANDA
Leads to price **instabilities** / inflation which tends to discourage investment.
Collapse of local / weak firms due to out-competition by the stronger firms
Leads to misallocation of resources/ irrational use of resources due to profit drive by firms.
Duplication of **production / activities** due to unnecessary competition hence wastage **because scarce resources are not being used efficiently.**
There is likely to be consumer exploitation due to profit motive or ignorance of the consumers in the economy.
Encourages capital out flows / profit repatriation by foreign -owned firms hence retardation of economic growth.
It exposes the population (consumers) to consumption of harmful products due to increased number of those involved in production with different motives.
Generates income and wealth inequalities because wages decline in uncompetitive industries while wages increase in internationally competitive industries
Gives rise to monopoly powers and its associated evils due to strong business firms out-competing the small and inefficient firms.
Leads to unemployment due to collapse of outcompeted firms or as some local firms, for example, in import competing industries, close down because of their inability to compete with cheap imports
Depletion of some resources due to overexploitation by the competing firms.
Flooding of markets with cheap imports **that sometimes forces prices to go very low to unacceptable levels**
Distortion of consumer choices due to persuasive advertisements
Foreign economic domination thus deepening the rate of economic dependence.
Accelerates environmental degradation and pollution

18. (a) **Discuss the causes of deteriorating terms of trade in Uganda.**

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This pattern is attributed to the heavy reliance of LDCs on commodity exports, whose prices are more volatile than those of manufactured goods.

- **Falling prices of exports**.
- **Importation of expensive manufactured capital and consumer goods**.
- **Increasing substitution / competition of exports with synthetics produced by developed countries**. **Development of synthetic substitutes** e.g. plastics have lessened the demand for several raw materials
- **Exportation of semi-processed primary (agricultural and mineral) products**.
- **Market flooding of raw agricultural products** leading to fall in export prices.
- **Protectionist policies of developed countries**- the developing countries, despite producing at lower cost, have found it difficult to break into the markets of the richer countries, as farmers there are often heavily subsidized and, in the case of the European Union, protected by a common external tariff.
- **Weak bargaining power of developing countries**.
- **Invention of raw material saving techniques of production**, and this has necessitated less use of raw materials and caused demand to fall.
- **Low income elasticity of demand for exports / primary commoditie**s - as real world incomes have grown, the demand for primary commodities has increased less than proportionately.
- **Low quality of exports**.
- **Rising prices of imports**.
- **Unfavourable exchange rates** - a **depreciation of the exchange rate** causes import prices to increase and export prices to decrease.

(b) Suggest measures that can be adopted to improve terms of trade in Uganda.

The following are ways that the government should/ can/may employ to improve the terms of trade in my country:

- **Undertake import substitution.**
- **Process products for exports (for improving the quality of exports and hence the value-added component of exports).**
- **Improve quality of the exports.**
- **Strengthen regional cooperation or diversification of export markets.**
- **Encourage importation from cheaper sources.**
- **Diversify exports.**
- **Negotiate for the removal of trade barriers in export markets such as the granting of preferential tariffs by developed countries to exports of manufactured goods, particularly from the least developed countries. This permits developing countries to earn more foreign exchange from selling their industrial products in developed-country markets at higher prices than would otherwise be possible.**
- **Strengthen or join commodity agreements (international commodity agreements).**

19. a) Explain features of a good tax system.

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Essentials / Features / Characteristics of a Good Tax System	Basic Principles of Taxation / Principles of a Good Tax System	**Relevant explanation**
It should be comprehensive /diverse	***Comprehensiveness / Diversity***	There should be a number of taxes of different varieties so that every class of citizen may be called uponto pay something towards the national exchequer i.e. **there must be different types of taxes, so that the burden of these taxes is on different groupsof the society**.
It should beconvenient	***Convenience***	It should be as easy as possible for the taxpayer to pay the tax (in terms of means and timing of payment) e.g. the **Pay As You Earn (PAYE)** method of tax collection
It should be **economical / Efficient**	***Economy/ Efficiency /Cheapness***	The cost of collection (for the government) must be minimum / should not be too high. In particular, the cost should be a relatively small proportion of the tax yield.
It should be neutral /impartial	***Neutrality / Impartiality***	It should not discriminate tax payers and should minimise the disturbance to the market that comes from taxation.
It should be certain	***Certainty***	The timing, method and amount due should be absolutely clear.
It should be fairly simple / it is simple	***Simplicity***	The system of taxation should be fairly understandable and easy to administer.
It should be equitable / fair	***Equity / Fairness***	The application of taxes should be fair in bearing the tax burden i.e. **every person should pay to the government in proportion of hisincome or revenue**.
It should be fairly elastic / it is buoyant /flexible / elastic	***Elasticity / Flexibility / Buoyancy***	The tax system of the Government should be elastic so that tax burden may be increased or reduced from time to time as and when the demand for revenue changes or according to the economic situation in the country.
It should beproductive	***Productivity***	Every tax imposed should give greater income for the government i.e. The tax should be of such a nature as to yield sufficient income to the Government to run the administration efficiently and to work for the welfare of the people.

Essentials / Features / Characteristics of a Good Tax System	Basic Principles of Taxation / Principles of a Good Tax System	Relevant explanation
It should be optimal	***Optimality***	There should be a minimum balance between the amount of revenue collected, the services rendered through public expenditures and the work effort forthcoming from the tax payers in order to increase productive output.
It should be based on the ability to pay principle	***The 'ability to pay' principle***	Taxation should be governed by people's *ability to pay*, that is, wealthier individuals or firms with greater incomes should pay more in tax while those with lower incomes should pay comparatively less.
It should be consistent	***Consistency***	It should be in line with national economic objectives, especially in allocation of resources.
It should avoid double taxation		A tax payer should not be taxed more than once on the same tax base
It has a built in stabilizer		A good tax should have a stabilizing influence on the economy

b) **An assessment of the role played by taxes in an economy**

Positive role of taxes

- Provide or raise revenue to the government.
- Promote equitable income distribution (for example a highly progressive personal income tax).
- Improve BOP position / a means of improving the balance of payments position.
- Promote proper resource allocation / influence resource allocation.
- Influence / promote investment.
- A means of protecting domestic firms / industries.
- Control inflation / reduce rate of inflation.
- A means of ensuring compulsory savings.
- Influence the level of economic growth.
- A means of controlling / discouraging dumping.
- Control monopoly power.
- Discourages production / consumption of demerit goods.
- Encourage hard work and effort / initiatives.

Negative role of taxes

- Discourage savings.
- Encourage malpractices for example smuggling and corruption.
- Discourage effort and initiatives.
- Are inflationary, the case with indirect taxes
- Create resentment of government that may erode her popularity / lead to unrest by

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taxpayers.
- Limit the volume and benefits of trade.
- Lead to retaliation in trade.
- Lead to diversion of resources from highly taxed to at times non-productive activitiesthat are less taxed / lead to misallocation of resources.
- Reduce consumption hence reduced consumer welfare.
- Lead to inefficiency of domestic / infant firms (which are shielded from externalcompetition)
- Reduce producer profits (hence collapse or stagnation of some firms due to highproduction costs)
- Lead to unemployment
- Discourage investment
- Lead to income inequality (especially regressive taxes

20. a) The need to formulate a national budget

- To create employment opportunities
- To control inflation
- To improve balance of payments position
- To protect infant industries
- To promote equitable income distribution
- To discourage consumption of undesirable products
- To raise revenue for government
- To influence the level of investment / to promote investment
- To Influence resource utilisation / allocation
- To accelerate economic growth
- To reduce economic dependence
- To promote balance in regional development
- To regulate government expenditure

b) The causes of the persistent budget deficit in Uganda

NB. Let the student bring out the rising government expenditure as opposed to low or falling government revenue with particular reference to Uganda not generalizing as developing countries

- Rising / high costs of infrastructural development e.g. the Karuma power / damworks, the East Africa railway gauge construction, **borrowing billions of shillings to finance mega public infrastructure projects** in the recent past including **building the standard gauge railway line, financing power generation** and **road construction** in order to meet the needs of the growing population.
- Frequency of natural disasters / hazards that require heavy emergency funding, for example, the **COVID -19 pandemic** and subsequent lockdowns to prevent the spread of the virus, **mudslides in Bududa** that have not been planned for.
- High levels of corruption in publicly executed projects / embezzlement of publicfunds / low levels of accountability in **the process of bids, contracting and the execution of projects.**
- Political instability that leads to **high military expenditure** .
- Limited non-tax sources of revenue / low revenue from non-tax sources.
- Heavy expenditure on civil servants and politicians.
- Heavy (persistent) debt servicing and repayment of the principal.

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- Heavy expenditure on external commitment for example **AMISON** peace keepingmission, contributions to international organisations etc.
- Over ambitious planning by the government leading to duplication of projects.
- Few tax bases / a narrow tax base. This results in low tax revenue yet there arenumerous expenditure needs.
- Weak tax administration / Tax evasion and avoidance.
- Low taxable capacity

20. (a) **Discuss the methods of wage determination in Uganda.**

Salaries and wages in Uganda are determined
• Through market forces of demand and supply of labour
• Through collective bargaining / industrial bargaining by trade unions
• By employers setting the salaries / wages
• Through individual bargaining / negotiations between the employer and employee
• Using the piece rate
• Using the time rate

(b) Account for differences in wages rates in Uganda.

The causes of wage differences in Uganda NB: a two-sided answer with depth and logical links. For example, the candidate links qualifications and experience to demand for and supply of workers, as well as linking demand for workers with demand for the products they produce.
• Differences in the duration spent at work / number of hours worked (the case with the time rate method).
• Differences in the quantity of output produced / people's ability to work (the case with the piece rate method).
• Differences in the nature of jobs / occupations and risks: high wages
• Differences / variation in the level of education attainment and skills.
• Differences in the elasticity of supply of labour
• Differences in the individual worker's ability to bargain

• Differences in the elasticity of demand for the product that labour helps to produce
• Differences in talents and natural abilities / gifts
• Differences in the cost of living
• Differences in the bargaining strength of trade unions / labour organisations
• Differences in the experience or expertise or seniority or responsibility of the workers
• Differences in the employers' ability and willingness to pay, based on its profitability
• **Non-matching (non-uniform) government policy on income and wage**
• **Discrimination in the labour market on the basis of gender / sex, age, religion, race, ethnicity, etc**.
• **Differences in the degree of substitutability of labour with machines**
• **Differences in the elasticity of demand for labour**.

21. a) **Private enterprises** are firms or business organizations established; owned and managed by individuals or groups of individuals.

While

Public enterprises are business organisations or firms set up and owned by government toprovide a particular good or service.

(b) Merits of public enterprises in developing countries

- Provide essential but unprofitable services / provide goods and services that have low commercial profitability but with high socio- economic benefits.
- Provide / produce goods of strategic importance thereby safeguarding national ownership of enterprises
- Avoid / reduce duplication and wasteful competition through setting up statutory monopolies.
- Generate / provide revenue to the government through profits.
- Provide employment opportunities to the people.
- Increase output hence economic growth
- Provide affordable goods hence increasing consumer welfare
- Improve skills of labour
- Promote development of entrepreneurship
- Promote balance in regional development
- Promote infrastructural development
- **Reduce income inequality**.

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- **Promote investment in risky ventures** which the private sector is unwilling to invest in.
- **Protect consumers / nationals against exploitation by private investors** e.g. the existence of National Bureau of Standards, National Drug Authority etc., ensures that products consumed by the public conform to the setminimum quality standards.
- **Complement the private sector firms in providing goods and services** hence avoiding monopoly. They complement the private sector to avoid private monopoly and its disadvantages or ills.
- Make planning easy as government has control of the economy. They facilitate proper implementation of government programs.
- **Ensure / provide social security** e.g. NSSF.
- **Promote resources utilization /promote local resource utilisation** hence increasing output.
- **Protect primary producers from exploitation** (by ensuring fair prices toprimary producers).
- Stabilise prices and incomes.
- Mobilise / encourage savings.
- Generate foreign exchange
- Reduce dependence on imports

Demerits of public enterprises

- They produce low quality goods due to absence of competition.
- Low level of accountability hence losses.
- High average costs of production due to diseconomies of scale hence losses.
- Limit consumer choices due to production of homogeneous products because they are monopolistic in nature.
- High level of government expenditure on subsidisation of the firms.
- Shortages occur during periods of breakdown / because they are monopolists.
- Limit consumer sovereignty.
- Discourage private investment.
- Inefficiency of operations hence high average production costs and losses dueto absence of competition.
- Low revenue to government.
- Heavy taxation of the public to raise revenue for subsidisation of loss making public enterprises.
- Lead to misallocation of resources
- Low quality of output than potential due to operation at excess capacity.
- High level of bureaucracy and its disadvantages.

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