

SECTION A (20 MARKS)

Answer all parts of this section.

1. (a) (i) Define the term **cross elasticity of demand**. (01 mark)
(ii) Given that an increase in the price of commodity X from Shs2,780 to Shs3,250 led to a change in demand for commodity Y from 410 kgs to 485 kgs per week, calculate the cross elasticity of demand. (03 marks)
- (b) (i) What is a **deflationary gap**? (01 mark)
(ii) Mention any **three** effects of a deflationary gap in an economy. (03 marks)
- (c) (i) Differentiate between **private foreign capital** and **public foreign capital**. (02 marks)
(ii) State any **two** forms of public foreign capital investment. (02 marks)
- (d) (i) Distinguish between **imported inflation** and **cost-push inflation**. (02 marks)
(ii) Suggest **two** measures that may be taken to control imported inflation in an economy. (02 marks)
- (e) (i) Differentiate between **Value Added Tax** and **Capital Gains Tax**. (02 marks)
(ii) State any **two** reasons for imposing Value Added Tax in an economy. (02 marks)

SECTION B (80 MARKS)

Answer any four questions from this section.

2. (a) Describe the features of a market economy. (06 marks)
(b) Explain the merits and demerits of a market economy. (14 marks)
3. (a) Distinguish between **economic dependence** and **economic interdependence**. (04 marks)
(b) Explain the implications of economic interdependence on an economy. (16 marks)
4. (a) Account for the price instabilities of agricultural products in Developing Countries. (10 marks)
(b) Suggest measures that should be taken to stabilise prices of agricultural products in Developing Countries. (10 marks)

- ✓ 5. (a) Under what circumstances may Trade Unions demand wage increase in an economy? (06 marks)
6. (b) Explain the factors that undermine the effectiveness of Trade Unions in a developing economy. (14 marks)
- ✓ 6. (a) State the objectives of the monetary policy in an economy. (08 marks)
- (b) Explain the factors that limit the achievement of the intended objectives of the monetary policy in an economy. (12 marks)
- ✓ 7. (a) Describe the qualities of a good development plan in an economy. (06 marks)
- 20 (b) Justify the need for economic development planning in the economic transformation of Developing Countries. (14 marks)