

**UGANDA NATIONAL EXAMINATIONS BOARD
NOVEMBER - DECEMBER, 2020**

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Paper code 5111

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P220/1 ECONOMICS , 2020

MARKING GUIDE.

SECTION A (20 MARKS)

- I(a)(i) Opportunity cost refers to the alternative foregone when choice is made. (1mk)
- (ii) Importance of opportunity cost to the producer.
- It helps the producer in pricing factors of production / commodities.
 - It helps the producer determine when to produce.
 - It guides the producer in determining the technique of production i.e how to produce.
 - It helps the producer decide where to produce.
 - It guides the producer in determining for whom to produce / Market for goods.
 - Guides the producer determine what to produce.
 - Guides the producer determine how much to produce.
- (Any 3x1 = 3mks)

b(c) Aggregate demand is the total demand for goods and services in an economy at a given period of time.

OR

It is the total (planned) expenditure on goods and services by all sectors in an economy

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Components of aggregate demand.

Consumption / Household expenditure.

Investment expenditure.

Government spending.

Net external / foreign expenditure.

(Any 3 x 1 = 3 mks)

cii Balanced growth strategy is a development strategy that emphasizes harmonious and simultaneous development / investment in all sectors of the economy so that they complement each other and grow more or less at the same pace / rate.

(1mk)

(i) Three limitations of the balanced growth strategy.

- Limited capital / funds to invest in all sectors.
- Limited skilled labour / manpower.
- Limited entrepreneurial skills / abilities.

Poorly developed infrastructure.

Small market size.

- Low level of development of technology.
- Low levels of accountability / high levels of corruption and embezzlement of public funds.
- Poor / uncoordinated planning.
- High levels of conservatism.
- Political instabilities.
- Unfavourable government policy on investment.

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- Weak intersectoral linkages.

(Any $3 \times 1 = 3$ mks.)

- d) i) Time rate method of payment is where labour is paid for the time spent working / according to hours worked.

Whereas;

Piece rate is a method of payment where labour / a worker is paid basing on the amount of work done / accomplished.

(1mks)

- (ii) Two demerits of using the time rate method of wage payment.

- It requires a lot of supervision which is costly / High costs of supervision.
- It is difficult to estimate output of an individual worker.
- Encourages laziness among the workers / absenteeism.
- Reduces the speed / pace at which work is accomplished / Go slow tactics may be applied so as to earn overtime allowances.
- It is a disincentive to hardworking labourers.
- It calls for effective record keeping which is costly.
- It reduces output.

(Any $2 \times 1 = 2$ mks)

- e) i) Tax base refers to an item / economic activity / entity / unit such as income, property / wealth

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While;

Taxable capacity refers to the extent to which a tax payer is able to pay a tax assessed on him/her to live a standard of life he/she or family has been used to. (B)

OR

It is the extent to which government can levy taxes without causing adverse effects on tax payers

OR

It is the ability of a nation to raise expected revenue from taxes without causing socially harmful results / effects.

(ii)

(1mk)

Two causes of a narrow tax base in developing countries:

- Low levels of income / Low wages.

- Existence of a large subsistence sector / Limited

commercialisation of the economy / small monetary sector.

- High levels of tax exemptions / Provision of tax incentives to potential tax payers by the government.

- High rates of unemployment / Limited employment opportunities.

- Low levels of investment.

- Existence of a small industrial sector.

- Poor infrastructural development.

- A large informal sector / small formal sector.

- Political instability.

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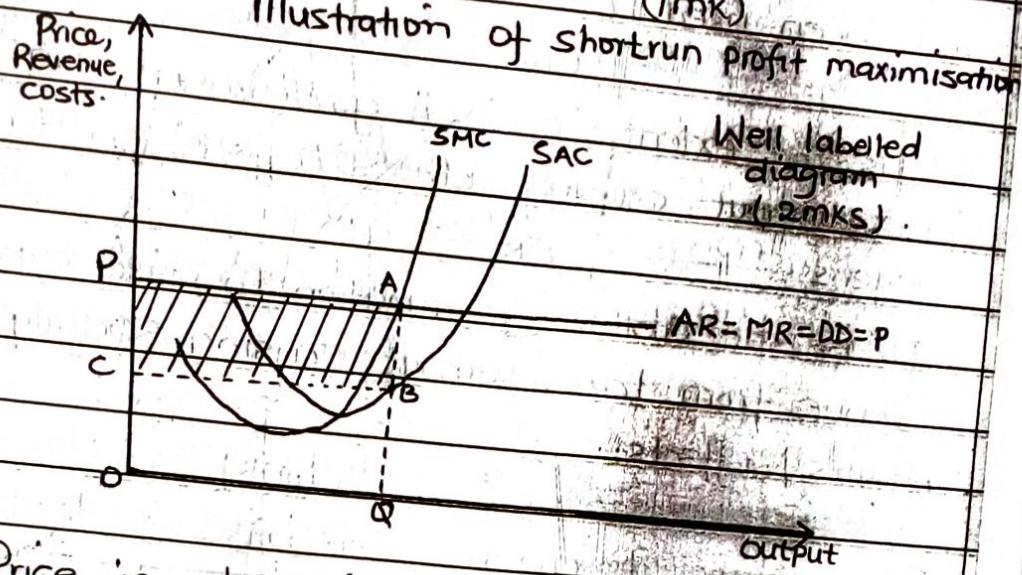
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2(a)

SECTION B (80 MARKS).

- (i) How profits are maximised under perfect competition market.
- In the shortrun, Profits are maximised at a point where $MC = MR$. (1mk)



Price is determined at a point where the Output line meets the AR/DD curve i.e. at point A. (1mk)
 Super normal profits / Abnormal profits are earned, represented by the shaded area PABC. (1mk)
 When $AR > AC$ at equilibrium level of output. (1mk)

- (ii) In the longrun, a firm maximises profits at a point where $MC = MR$. (1mk)

Price,
Revenue,
costs.

$C = P$

LMC LAC

Well labelled
diagram
(2mks)

$AR = MR = DD = P$

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Price is determined at a point where output line meets the AR/ DD curve. (1mk)

Normal profits are earned since $AR = AC$, at equilibrium level of output. (2mks)

(b) Examining merits and demerits of perfect competition.

Merits of perfect competition .

- Promotes efficient allocation of resources in the longrun / full utilisation of resources.
- It provides an efficient standard / Convenient measuring rod for comparison of price determination in other market structures.
- It ensures fair and stable prices in the market.
- Ensures equitable distribution of incomes because of many firms / free entry and exit.
- Research and innovations are encouraged due to abnormal profits in the short run.
- Ensures increased output because of large number of firms.
- There is no wastage of resources / Low costs of production because of no costs on advertising, transport etc .
- Creation of more employment opportunities. (Any $4 \times 1 = 4$ mks)

Demerits of perfect competition .

- It assumes certain ideal market conditions/ situations that do not exist in real life .

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and business ownership of capital.

- Limits research and innovations due to low/normal profits in the longrun.
- Lack of economies of scale / Limited expansion in the longrun.
- Limited choice of commodities for consumers/ Lack of varieties.
- Unemployment in the longrun since inefficient firms are pushed out of production.
- Duplication of commodities / economic activities Leads to wastage of resources.

(Any 4 x 1 = 4mks)

3(a) The Demographic Transitional Theory of population explains the phasing out process of population growth from a virtually stagnant growth stage with high birth rates and death rate through a rapid growth stage with high birth rates and declining death rates, to a stable low growth stage in which both birth and death rates are low.

OR

The theory describes a sequence of changes over a period of time in the relationships between birth and death rates, and the overall population change. (2mks)

The theory suggests/ assumes that the population of countries pass through similar demographic transition stages/ population

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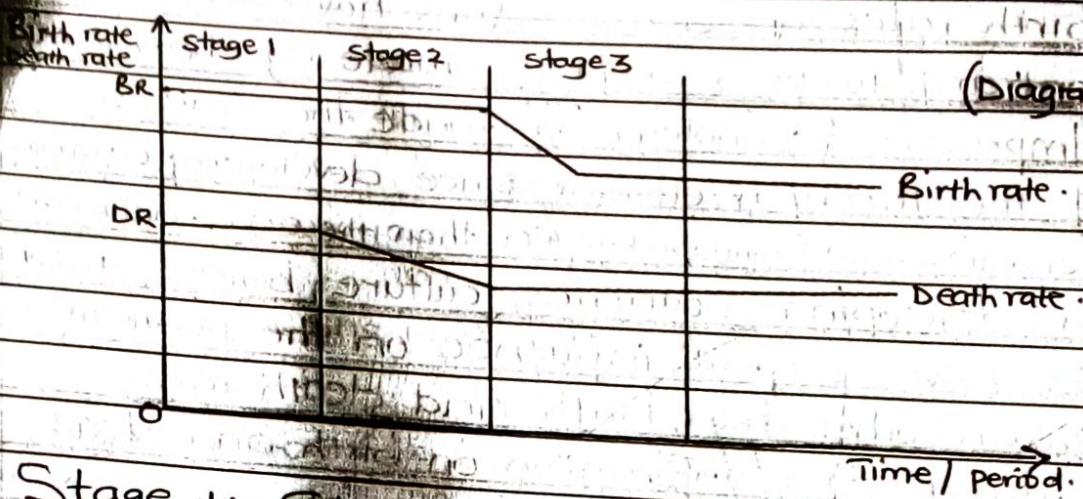
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(Diagram 2mks)

Birth rate .

Death rate .

Time / period.

Stage 1: Stagnant population growth rate with high birth and death rates leading to low population growth rate. (1mk)

Stage 2: This is expanding phase with high (stable) birth rate and declining death rate, leading to high population growth rate. (1mk)

Stage 3: This is a late expanding stage with declining / falling birth rate and low death rate, leading to low population growth rate. (1mk)

- (b) Limitations of the Demographic Transitional Theory of population growth in developing countries.
- The theory was based on highly developed and industrialised countries yet most developing countries are not:
- It assumes that population growth of all countries pass through simple demographic transitional

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- Birth rates of some countries have risen overtime, Contrary to the assumptions made by the theory!
- Improved technology has made the time scale of the theory irrelevant since developing countries' economies have developed faster than the early industrialised countries
- In developing countries, culture, beliefs, customs etc have a great influence on the population growth other than birth and death rates.
- Limited data / information on birth and death rates makes the theory irrelevant.
- The theory does not consider the influence of wars, political instability on death rate.
- The theory does not take into account the occurrence of epidemics such as AIDS, covid19 and other natural disasters that affect population growth.
- The theory does not take into account scientific methods of birth control like family planning, government policies. leading to a fall in birth rate.
- The theory ignores the influence of migration on population change / growth rate.

(Any 6x2 = 12mks)

- 4(a)(ii) Calculating the current year price for each commodity.

$$\text{Current year price} = \frac{\text{Base year price} \times \text{Price relative}}{100}$$

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A: $\frac{800 \times 125}{100} = \text{shs. } 1000$ Pers. $\frac{1}{2} \text{ MK.}$

$$B: \frac{1000 \times 120}{100} = 1200 \text{ mK}$$

$$C: 600 \times 30 = \dots \dots \dots \frac{1}{2} MK$$

Diamond 10 nm $\sim \frac{1}{2}$ mK

٦١

Calculating Simple Price index

S.P.I. = Summation of price relative - Imk.

$$= 125 + 120 + 80 + 100 \quad \dots \dots \dots \frac{1}{6} \text{mk}$$

TIME = 106.25 ----- $\frac{1}{3}$ mks

iii) Calculating Weighted price relative.

$$W.P.R = \text{Price relative} \times \text{Weight} \text{--- Imk.}$$

$$A: 125 \times 2 = 250 \text{ m}^2$$

$$D: 100 \times 3 - \dots \frac{1}{4} \text{ mK}$$

$$\text{B: } 120 \times 1 = 120 \text{ mK}$$

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(iv)

Calculating Weighted index

$$W.I = \frac{\text{Summation of weighted price relatives}}{\text{Summation of weights}} \dots \text{L.M.K}$$

$$\text{OR } \frac{\sum W.P.R}{\sum W}$$

$$= \frac{250 + 120 + 320 + 300}{2 + 1 + 4 + 3} \dots \frac{1}{2} \text{ M.K.}$$
$$= \frac{990}{10} = 99 \dots \frac{1}{2} \text{ M.K.}$$

- (b) Problems encountered by developing countries in the computation of the cost of living indices.
- Difficulty in selecting a suitable base year.
 - Difficulty in selecting/determining a representative basket of commodities.
 - Problem of weighting/attaching weights.
 - Absence of standard weights and measures.
 - Problem of changes in tastes and preferences/consumption habits.
 - Appearance and disappearance of some products.
 - Price changes/fluctuations.
 - Limited/wrong data/information obtained.
 - Quality improvement that may lead to increase in prices.
 - Different prices in different areas/regions/Absence of standard prices.
 - Limited personnel with appropriate skills for computing cost of living indices.
 - Limited facilities/physical equipment for

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- Difficult to compute price indices in communities that use barter trade.
- Few areas / regions are sampled and so the whole country is not covered.

(Any 6x1 = 6mks.)

5(a) Importance of the national budget.

- Creation of employment opportunities / reducing unemployment.
- Controlling inflation / deflation / attaining or maintaining price stability.
- Improving balance of payment position / corrects B.O.P. deficits.
- Protection of infant / domestic industries.
- Reduces income inequality / promotion of equitable distribution of income / promotes equitable distribution of income.
- Discouraging production and consumption of harmful / demerit / undesirable products.
- Raises revenue for the government.
- Influences investment.
- Accelerates the rate of economic growth.
- Creates balance in regional development / Reduces imbalance in development.
- Influences resource allocation.
- Regulation of government expenditure.
- Management of public debt.

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- Mobilising foreign aid.

Any $10 \times 1 = 10$ mks.

- (b) Accounting for persistent deficit financing in developing countries.
- To leave enough disposable income with the citizens (thus improving their welfare).
 - To encourage saving and investment by not overtaxing people's incomes and profits.
 - To revive the economy from a slump / depression / recession / To close a deflationary gap.
 - To avoid negative effects of high taxation.
 - To win political support / increase popularity of government.
 - To create employment opportunities.
 - To raise funds quickly through borrowing.
 - To alleviate the effects of natural catastrophies / disasters.
 - To stimulate economic growth by increasing aggregate demand / through sustained market.
- (Any $5 \times 2 = 10$ mks.)

6(g) A description of any five forms of economic integration.

1. Preferential Trade Area (PTA)

This is where countries reduce tariffs on

memorandum

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2. Free Trade Area (F.T.A). Countries eliminate internal trade barriers to allow free movement of goods and services among member states but each member country charges different external tariffs on non-member countries.
3. Customs Union. In addition to eliminating internal tariff barriers among themselves, they agree to impose a common external tariff on non-member states.
4. Common Market. In this stage, member states eliminate internal trade barriers, have a common external tariff on non-member states and on top of that, they allow free movement of factors of production among themselves.
5. Economic Union. This is a form of economic integration where member states eliminate internal trade barriers, have a common external tariff for non-member states, allow free movement of factors of production, have common social services and in addition have common fiscal and monetary policies with joint ownership of services like air and railway services (political federation). (5x2 = 10mks)

Mention a form of econ. integration --- 1mks
 Explaining / showing the feature(s) in each stage --- In

- (b) Explaining the merits and demerits of economic integration.

Merits of economic integration.

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- It leads to specialisation with its advantages.
- Stimulates industrial development.
- Leads to increased resource exploitation / increased output / economic growth.
- Increases the bargaining power of the member states in the international arena.
- Low average costs of joint research and information gathering.
- Leads to development of infrastructure.
- Eases trade in the integration because of a common currency.
- Production of better quality goods and services because of competition.
- Creation of more employment opportunities.
- Production of a variety of goods and services hence widening consumer choices.
- Creates political cooperation and understanding among member states.
- Enables transfer of knowledge and skills among member states / factors of production / technological transfer.
- Attracts foreign resources / investments / capital inflow.
- Widens market.
- Increases gains from international trade / reduces duplication of activities / industries.

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- There can't be uneven distribution of industries.
- Countries may be compelled to buy poor quality products within the union instead of importing better ones from outside the union.
- The distribution of industries may be done at the expense of economies of scale but for the purpose of distributing projects and benefits to and against the principle of comparative advantage.
- Formation of an economic community leads to loss of political sovereignty.
- The movement of goods may be in one direction, leaving other countries impoverished / unequal trade benefits.
- Countries in the union may be producing similar products resulting into surpluses / limited market.
- National interests are compromised.
- It leads to loss of government revenue.
- High costs of staffing as labour force is transferred to far places / increases government expenditure.

(Any 5x1 = 5mks.)

- 7(a) Reasons why developing countries carry out development planning.
- For proper allocation of scarce resources.
 - For equitable distribution of income / wealth / To reduce income inequalities.

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creating more employment opportunities.

- for resource mobilisation eg borrowing (internal), taxation / To generate revenue
- To relate the present to future trends and targets.
- To identify areas suitable for public and private investment.
- For harmonious and consistent use of resources.
- To encourage public participation in the development process / To solicit for political support.
- To attain price stability (by influencing production levels) / To reduce inflation.
- To correct balance of payment problems.
- To solicit for foreign aid / assistance from development partners.
- To determine the rate of economic growth and development / utilisation of resources.
- To reduce economic dependence / promote self-sufficiency.
- To ensure balanced regional development.

(Any 10x1 = 10mks.)

(b) Factors that influence the implementation of development plans in developing countries.

- The availability of funds.

- The availability of data / information.

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- The efficiency of the implementation machinery / Labour skills.
- The political climate / atmosphere.
- Level of accountability.
- Rate of inflation / the price level / Degree of price stability.
- The degree of ambitiousness of planning.
- The will of the people / the level of conservatism / Degree of public support.
- Degree of dependence on external resources / aid for planning / Level of external influence.
- The level of dependence on nature / natural factors.
- The population growth rate.
- The level of development of infrastructure.

(Any $5 \times 2 = 10$ mks)

Mentioning (1mk)

A 2 sided explanation (1mk)

END.