

RECENT QUESTIONS & SOLUTIONS



Micro and Macro Economics **An Advanced Learner's Guide**

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This book is dedicated to;
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Ms. Nannyonga Jane
The late Zaverio Kyeyune
Mrs. Ssengonzi Mary
All A'level Economics students

For any corrections and criticisms, please contact the author on

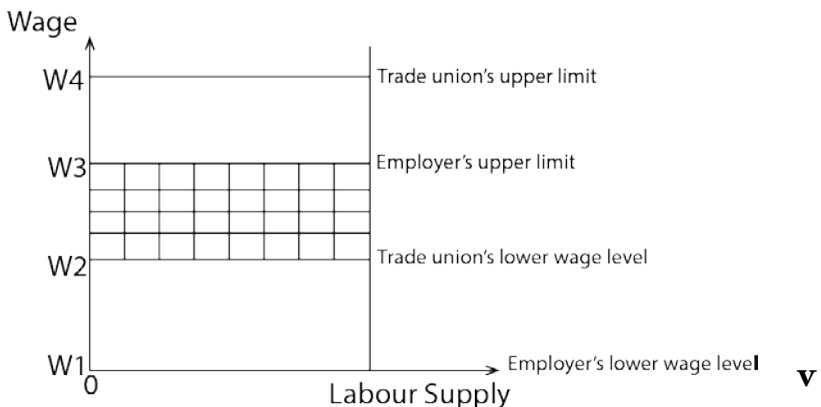
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COMMON KEY WORDS IN SECTION A AND B QUESTIONS

- ### ILLUSTRATION OF BARGAINING RANGE



A wage rate is determined between the employer's upper limit (W_3) and the trade union's lower level (W_2). **This is done mostly in section B**

4. **State or mention or give or outline or list :**

- Here a student is required to express clearly the concept given,
- Answers should be in complete sentences
- Ensure that the required key words are in the answers
- Avoid using one word when answering

5. **Explain:** Give the meaning of the concept or term asked and in additional elaborate on it using realistic examples. Your explanations must be in line with the point mentioned on a certain concept

6. **Describe:** Give the features or traits or procedures or characteristics of the concept being asked in details. Sometimes it is asked on effects, causes etc. here you are required to explain in details

7. **Assess:** Here you are determining the magnitude of the concept being asked or determine the value of what is asked with clear explanations. Questions with the word assess normally require two sided answers for example Assess the implications of the structure of Uganda's economy

- Here give both positive and negative implications separately avoid mixing them
- However, it is also used on questions with one sided answers e.g. assess the role of public finance in the development of your country. On such a question you give only the positive roles

8. **Examine:** This involves analyzing the concept given by using facts available and explain them thoroughly.

- Usually questions having the word examine require two sided answers

It is also used on questions that require one sided answers for example

- Examine the advantages of price mechanism in an economy
- Examine the problems facing agriculture in LDCs

9. **Discuss:** This involves arguing on the concept being asked from different points of view. It is either put at the beginning or at the end of the question

Questions beginning with the word “Discuss”. These usually require one sided answers which must be well explained

Questions ending with the word “Discuss”. These usually require two sided answers for example

- (a) **Uganda should adopt a balanced growth strategy if she is to achieve a faster economic growth rate. Discuss.**

Approach:

- Agree with the statement by giving advantages of this strategy
- Disagree with the statement by giving the disadvantages of this theory

- (a) **Uganda should adopt agriculture development rather than industrial development if she is to take off. Discuss**

Approach:

- You first agree with the statement by giving advantages of agriculture development concurrently with the disadvantages of industrial development. On the however side give the disadvantages of agriculture over the advantages of industrial development
- Then after, you disagree with the statement by supporting the opposite and giving its advantages over the disadvantages of agriculture. On the however side give the disadvantages of the industrial development over the advantages of agriculture concurrently using words like unlike, compared to etc.

10. **To what extent:** This requires a student to explain how far is the concept true/relevant/applicable/beneficial or disadvantageous/inapplicable/irrelevant etc. You have to state the extent/magnitude at which the concept being asked is true or not for example

- (a) **To what extent is Malthusian population theory relevant to developing countries?**

Approach:

- To a smaller extent it is relevant give reasons to support it
- To a bigger extent it is irrelevant give reasons to support it

NB: it is mainly used on theories

THE DIFFERENCE BETWEEN PAPER 1 AND PAPER 2

ECONOMICS PAPER ONE

This paper is interested in testing students' ability to recall the concepts. In otherwise it is a theory paper. It is testing the ability of the student to recall the subject matter and reproduce it

It consists of normative economics that looks at the situation as it is ought to be according to economics concepts for example "The higher the price, the lower the quantity demanded" according to the law of demand yet high price can lead to high demand of a certain commodity That is why almost all questions in this paper contain the word in **an economy** implying that in any given economy. For example

Explain the indicators of high standards of living in an economy

Approach:

Here a student presents all the indicators of good standards of living like high life expectancy, high percapita income, high level of employment, even distribution of income, good accommodation, high literacy rate etc.

ECONOMICS PAPER TWO

This paper consists of applied/positive economics that looks at the situation as it is. Economics in this paper is explaining what is going on in a given country. Therefore, it tests student's ability to:

- Understand the subject matter
- Reality
- Originality
- Creativity and innovativeness

In this paper, a student must clearly explain the points using current and live examples from his/her country that is why almost all questions contain the word in **your country**. Apart from the traditional points given a student can also produce other logical points

In this paper not all points in paper one are applicable

For example, if we have the same question as that of paper one

Explain the indicators of high standards of living in your country

Here almost all the above points are not applicable because Uganda has low percapita income, low life expectancy of about 61 years (Census 2014), high level of unemployment, existence of income inequality and high illiteracy rate. However, some points can be improved to qualify them like increasing good accommodation, increasing literacy rates

MARKING OF BOTH PAPERS

- In paper 1 they do not give half a mark on any point given and notexplained. You either get all the marks or not
- In paper two if you identify a point and put a full stop, you earn a mark. When you explain correctly you also earn a mark
- In both papers no half a mark is given on defining concepts. You either get all the marks or not

FIVE ESSENTIAL FEATURES OF A GOOD ESSAY IN ECONOMICS

The following are the five essentials of a good quality essay:

1. **Effective communication:** An essay that portrays effective communication skills should have the following:
 - Use of proper grammatical expressions and sticking to the tense used in the question for example if the tense is “have been” use that throughout, if it is could use could throughout without changing to shall
 - Essays without spelling errors – most especially the spellings of technical words. Technical words are those with definitions in economics for example variable costs if you write it as valiable costs it makes you to lose marks
 - Clear and neat handwriting- since untidy work and bad writing is a cover up technique for those with weak command of English or those who do not know spellings of certain words
 - Comprehensive work free of hanging and incomplete phrases/sentences so as to avoid questions like how, where, when, to whom? Etc.

- Proper use of technical words for example inflation, retrenchment. Most students use these words wrongly like inflated country, retrenchment of workers, stopping population growth. Such phrases are wrong because a country cannot be inflated but we have countries experiencing inflation, retrenchment means reducing costs of production through reducing workers etc.
- Realistic description of structural features of an economy with limited generalized features by using words like mainly/basically/largely/dominated/mostly/at least/normally/predominantly etc.
- Use of appropriate punctuations to clearly bring out distinctions in the different phrases used in a point. A good paragraph must have three full stops, one immediately after identify the point, the second one after the explanation and the third at the end of the paragraph
- Writing words in full without necessarily using unique abbreviations. Abbreviations are not allowed e.g. PED to mean price elasticity of demand if you are to use it first define it. However, some conversational abbreviations can be allowed like BOP, GNP, TOT, to a certain extent
- Limited use of strong words/phrases and words that make up a point appear too ideal or quite unrealistic like lack of. Use moderate phrases like limited, inadequate, insufficient, inappropriate etc. when looking for problem questions

2. Consistency: This involves or requires one to:

- Clearly state a point such that when one looks at the statement of the point he/she can with high degree of certainty know the question being attempted. A correct answer walks back one to the question. You have to drive the answer back to the question
- Giving appropriate explanation to a point and not re- stating the point using too many words
- Traditional (strong) points to a given concept should be put down first and then the weak points last
- Making sure that the first point is as good as the last and the last point is good enough to have been the first point i.e. the points are equally strong

3. Optimality: Here the emphasis is on:

- Putting down as many logical points as possible
- Make sure that there is diversity of points with limited repetitions
- Semi- closed questions in section A are opened up most especially. Give as many points as possible even if the question is limiting you
- Concept questions in section B are clearly stated, broken down, assumptions made if necessary; the different forms/types pointed out and diagram to illustrate the concepts drawn e.g. What is meant by Malthusian population theory? State it the way the owner stated it, break it down i.e. explaining the meaning of its statement, give assumptions/examples where possible
- Calculations have appropriate formulae, correct substitution of variables, working and computations are correct and the final answers have the correct units
- **NB: Good choice of questions is a prerequisite for attainment of optimality**

4. Flow of work: candidates should know that there are questions that require certain order of presentation of work. Points are supposed to follow a sequence. For instance, calculation questions, questions on determination of price indices, computation of credit created by commercial banks etc.

It should be noted that every question requires a certain lead word or phrase, for example a question that requires description of structural feature may be logically answered with words like mainly, basically, predominantly etc. preceding the features

5. Productive illustrations: which could be inform of an example, a statistical data or figure or a diagram and for a diagram the following features are a must

- An introduction (title)
- Well labeled axes without abbreviating the variables for example price on the y-axis as px
- Having all lines, curves and points drawn portraying economics concepts

- Concluding the illustration with a foot note that explains your diagram e.g. point P is the Malthusian population trap
NB. It should be noted that wrong examples and data kill the points for which they are given

TECHNIQUES FOR EXCELLENCE

STARTING POINTS

- Always introduce your answers
- Avoid one word answers like capital/market etc.
- Make use of full stops to demarcate your points
- Make a work plan
- Avoid general points like government policy
- Don't leave a question unanswered in section A
- Read questions at least three times, analyze them to identify the tricks used
- Give as many points as possible

COMMON MISTAKES

- Poor numbering of work
- Repeating or re-writing questions in part B
- Wrong point phrasing e.g. poor infrastructure
- Lack of content
- Unnecessary explanation of section **A**
- Wrong spelling of technical words
- Defining concepts which are not called for/being too wordy
- Untidy work/too much crossings
- Duplicating points
- Too much outlining in section **B** especially in paper two
- Making your one marking guide outside during the examination
- Making headlines in your essay

CATEGORY OF QUESTIONS EXAMINED IN ECONOMICS

1. **Objectives/goals/aims/need to/justify the need for/rationale/why is necessary/explain the reasons**
Use to/so as to/in order to/the need to/ing
e.g.

- Explain the rationale for decentralized planning in your country
- Why is necessary to control unemployment in your country
- Justify the need for population control in your country
- Explain the objectives of encouraging import substitution development strategy in your country

NB. (a) Avoid using words like *to see, to know, to understand etc.*

(b) The approach for reasons depends on the nature of the question i.e. sometimes you are required to give causes some times objectives e.g.

Explain the reasons for increased government expenditure in your country. Give causes

Explain the reasons for interfering with price mechanism in an economy/controlling monopoly. Give objectives using 'To'

2. Advantages, disadvantages/ merits/demerits/ consequences/implications/impacts/effects

Use present tense i.e. the “es” tense e.g. it promotes, encourages, creates etc. Action orientated words like provision of, creation of, establishment of

NB. (a) Do not speculate i.e. don't use words like *it may lead to, will, can lead, would, could etc. on advantages*

(b) Avoid presenting them in past tense i.e. it *created, promoted etc.*

3. Circumstantial questions/situational/conditional questions

- Use in case/if/when at the beginning of each point e.g.
- Under what circumstances/situations/conditions may price discrimination be successful?

Answers

- When the seller is a monopolist
- When marginal revenue in both markets is the same

NB. Conditions/situations necessary we use should/ must at the beginning of each point

e.g.

Explain the conditions necessary for the success of price discrimination. The seller **must** be a monopolist

4. Canons/elements/principle, tools/essentials/laws remain unchanged

Present them as they are

Use title case writing format

E.g. canons of a good tax e.g. comprehensiveness, simplicity but not simple

5. Features/traits/attributes/qualities/characteristics

Use 'es' tense/ present tense e.g. it **is** basically or it has

Use should.

But all the two approaches depend on the nature of the concept and question asked e.g.

Explain the features of your country's industrial sector

Say, it is small but growing or it is dominated

Explain the features of a good tax

You are free to use should/ present tense e.g.

It should be comprehensive or it is comprehensive

NB. If you are giving structural features/traits i.e. when you are describing the structure of any given concept use qualifiers like basically, mainly, predominantly, majorly etc. in your explanations

6. Factors that influence/determine/affect

Give neutral points

Explain fully on both sides

Avoid speculative words like *will, shall, can, may, could* etc in your explanations

7. Problems/ constraints/ obstacles/ hindrances/ challenges

Use words like insufficient/inappropriate/limited/inadequate

NB. Avoid the use of words like *Lack of/lack of enough/poor*

Note the spellings of those words

E.g. *poor infrastructure/lack of capital/lack of enough capital*

8. Change in/difference in/decrease in/increase in/increased/decreased etc.

Start with the very word used in the question

E.g.

Explain the factors that lead to a decrease in prices for goods and services

Decrease in the demand for a commodity/decline in the quality of a commodity etc.

Explain the factors that cause a difference in the level of wages paid to workers

Approach: difference in skills possessed by workers/difference in bargaining power

NB. Avoid using words like high or low in your explanations e.g. high demand or low demand

9. How /in what ways/ways

Use by/through and present continuous tense at the beginning of each statement

10. Solutions/ measures/ remedies/ strategies/ steps/ attempts

The approach depends on the tense in the question

e.g.

Suggest measures that should be taken

Improve on political climate/infrastructure/reform the education system and should after a full stop e.g. control population growth rate. The government should control. Avoid using present tense when suggesting measures.

Explain the measures being taken

Use present continuous tense

e.g. ***Controlling population growth rate.***

The government is controlling population growth rate through.

Please maintain the tense even in your explanations

Explain the steps that have been taken. Follow the tense i.e. it has been made/done

11. Two questions in one (Questions with the word and in the middle)

Separate the positive answers from the negative answers e.g. explain the advantages and disadvantages of import substitution development strategy

12. Comparison questions

Your point identification must cater for both sides

Explain the two concepts fully in one paragraph

For example

Explain the advantages of agricultural development strategy over import substitution development strategy

Why is free trade preferred to protectionism?

Join the two points using words like unlike, compared to, than

NB. Avoid using words like *but, whereas, while, yet* on such a question

13. Four questions in one

e.g.

Uganda should adopt import substitution development strategy rather than export promotion development strategy if it is to achieve a faster rate of economic growth and development. Discuss

Such a question is four sided

Give advantages of import substitution

Give disadvantages of export development strategy

Give advantages of export substitution

Give disadvantages of import promotion

Or

It can be answered co-currently i.e. advantages of one over the disadvantages of other

Then advantages of the 2nd over disadvantages of the first

14. To what extent

State the stand point

Explain your answers

State the stand point of the second side using the word however

NB. When you say to a smaller extent, it does not mean to give few points, give all the points you know

15. Theories

State it, illustrate it and expand on it

NB. Avoid giving limitations/weaknesses/criticisms in form of assumptions

16. Market structures (Profit maximization)

- Formulate the title
- Talk about profit maximization where profits are maximized i.e. where $MC=MR$
- Illustrate
- Talk about how output is determined i.e. where MC meets MR
- Talk about how price is determined i.e. where the output line meets the demand curve/ AR
- Talk about how costs are determined i.e. where the output line meets the average cost curve
- Talk about the type of profits earned i.e. abnormal or normal profits
- Talk about where profits are earned i.e. here $AR>AC$ or $AR=AC$
- If the firm in the long run makes normal profits tell us the reason as to why it is making normal profits

17. Sources

Give them as they are

NB. Avoid using by/through on sources or present continuous tense

18. Steps/processes/procedures/activities

Follow the correct order

Use present continuous tense at the beginning of each step

For example, how are price indices computed?

19. Calculations

- State the formula without using abbreviations
- Define the variables used e.g. price= 02
- Substitute accurately with the units given
- Carry the units to the final answer

20. Roles/contribution

- Begin with action verbs like provision/creation
- Use present tense on each point

21. Benefits. Use present tense/ action verb Important to note:

Get a clear difference between

- A minimum price (is a price) and a maximum price legislation (is where/act of setting)
- Economic planning and a plan
- Price control and price support

SECTION A

1. (a) (i) What is the relationship between scarcity, choice and opportunity (2marks)
- (ii) Mention two branches of economics (2 marks)
- (b) Give any four features of a market economy (4marks)
- (c) (i) Distinguish between ability rent and quasi rent (2 marks)
- (ii) Distinguish between factor price and market price (2 marks)
- (d) What does the production process entail (4marks)
- (e) (i) Distinguish between capital formation and capital consumption (2 marks)
- (ii) Mention any two forms of capital in an economy (2marks)

SECTION B

2. (a) Distinguish between factor mobility and mobility of labour. (4marks)
- b) Explain the causes of geographical mobility of labour in an economy (16 marks)
3. (a) What is meant by mixed economy (4marks)
- (b) Examine the merits and demerits of a mixed economy (16 marks)
4. (a) Explain the importance of the concept of opportunity cost (10marks)
- (b) Explain the limitations of the concept of opportunity cost (10marks)
- 5 (a) Distinguish between labour efficiency and labour productivity (4marks)
- (b) Explain the factors affecting labour productivity and efficiency in an economy (16marks)

SECTION A

1 (a)(i) Due to limited means, choice has to be made between alternatives; the choice of one alternative implies the foregoing of another which is the opportunity cost **2marks**

*Any 2X1
=2marks*

(ii) **The following are branches of economics**

- Micro economics
- Macro economics

(b) **The following are features of a market economy**

- There is private ownership of wealth and property
- There is freedom of choice and enterprise
- Self interest is the dominating motive in all activities
- There is existence of competition among producers and consumers
- There is reliance on price mechanism in allocation of resources
- There is limited or no government intervention in economic activities
- There is a high degree of consumer's sovereignty
- It assumes a perfect factor mobility
- It assumes perfect knowledge of the prevailing market conditions

*Any 4X1
=4marks*

(c)(i) **Ability rent** is the payment to a factor of production due to its natural abilities or talents like foot balers **whereas social rent** is the payment for the use of the original property of soil **2marks.**

(ii) **Factor price** is the monetary value or payment to a factor of production for its contribution to production of goods and services **whereas**

Market price is the ruling or prevailing price for a given product at a particular time **2marks**

(d) **Production entails the following:**

- The production process entails the following:
- Physically transforming raw materials into final or intermediate goods

- Storing the goods until such a time when man needs them
- Transporting the goods to the destination where man needs them
- Change of ownership through the exchange of goods and services
- Provision of direct services e.g. teaching nursing etc

(e)(i) **Capital formation.** Refers to the process of increasing a country's stock of real capital **whereas**

Capital consumption is the continuous wearing and tearing of capital goods

(2marks)

(ii) **The following are forms of capital accumulation:**

- | | |
|----------------------------|----------------------------------|
| - Real capital | - Working or circulating capital |
| - Money or nominal capital | - Sunk capital |
| - Private capital | - Floating capital |
| - Public or social capital | - Foreign capital |
| - Fixed capital | - Domestic capital |

*Any 4X1
=4marks*

SECTION B

2 (a) **Factor mobility** refers to the ease with which a factor of production moves from one occupation or geographical area to another *2mks*

Whereas

Mobility of labour refers to the ease with which labour moves from one geographical location or occupation to another *2mks*

(b) **The following are causes of geographical mobility of labour:**

- Differences in cost of living in different areas. Labour tends to move from areas where the cost of living is high to those where the cost of living is low. For example where prices of goods and services are low, rent is low etc
- Insecurity in some areas. Labour tends to move from areas which are insecure to those which are secure and peaceful leading to geographical mobility of labour
- Geographical wage differentials. Labour moves in order to seek for high wages found in some geographical places. For example from rural areas of low wages to urban areas with high wages

- Outbreak of epidemics in particular areas. Labour moves from one area to another in order to avoid such diseases for example Ebola, jiggers etc. because these diseases claim lives of many people
- Desire to simply change environment and join friends or relatives in other areas. Labour moves from one location where there are no friends and relatives to areas where there relatives and friends leading to geographical mobility of labour
- Desire to enjoy social amenities found in particular places. Labour moves from one area with no social amenities like piped water, electricity, night clubs etc to areas with such amenities. For example from remote areas to urban areas with such services leading to geographical mobility of labour
- Desire to seek for employment. Labour which is unemployed moves from one area with no jobs to other areas with jobs where he/she can easily get employed. for example to urban areas with many job opportunities hence leading to geographical mobility of labour
- Socio-cultural factors. Labour moves from one location to another due to linguistic problems that is to say inability to speak the language used in the area to other areas where they speak a language familiar to him/her hence leading to geographical mobility of labour
- Government/Employers' policy of labour transfer. This mainly concerns those in civil service and non government organizations. A labourer who has been given a transfer moves from the current place of work to another where he/she is requested to go leading to geographical mobility of labour
- Unfavorable climatic conditions at the current place. Labour moves from one place with extreme hotness, coldness etc to areas with favorable climatic conditions like adequate sunshine etc thus causing geographical mobility of labour
- Victimization at the current place. Labour moves from one areas where he/she is wrongly or rightly victimized against indiscipline like rape, theft etc to other areas where he/she is not known hence causing geographical mobility of labour
- Prospects of promotion in other places

*Any 8X2
=16marks*

3 (a) **A mixed economy** is an economic system that has both private sector and public sector operating side by side in owning, allocating and distributing resources **2mks**. Both private individuals and the public participate in providing goods and services with the public sector providing mainly public goods which are non-profitable to private individuals although essential to people and regulating the economic activities done by the private sector. **2mks**

(b) **The following are merits of a mixed economy:**

- There is limited wastage of resources in the mixed economy due to regulated competition among the private individuals by the public sector. The government regulates wasteful competition thus reducing wastage of scarce resources.
- A mixed economy provides a wide variety of goods and services to people. This widens consumers' choice due to their ability to choose from very many products produced by both the public and private sectors thus improving their standards of living
- It ensures production of better quality products. This is due to existence of government in regulating the quality of output through national bureau of standards and the competition between the private and public sector hence improving on the standards of living of people
- It results in increased employment opportunities. This is due to many economic activities arising from both the public and private sectors thus increasing the incomes of the people
- A mixed economy reduces consumers' exploitation by private individuals. Due to existence of the government in economic activities. It reduces exploitation of consumers by private monopolies in form of high prices, wrong measures etc
- It copes with rapid structural changes in the economy. A mixed economy can easily respond to rapid increase in demand for certain goods and services by supplying more due to many producers in the economy
- It promotes economic stability in the country. This is due to the existence of government that regulates economic variables like inflation by keeping prices relatively stable. This stimulates investments due to conducive business environment

- It accelerates economic growth and development. The existence of both private and public sectors results in production of high level of output in the economy

*Any 8X1
=8marks*

ii) The following are the demerits of a mixed economy:

- A mixed economy is associated with red tapes and bureaucracy due to the existence of public sector. This delays decision making process and discourages many potential investors
- It leads to wastage of resources due to wasteful competition between the private and the public sector. This leads to their quick depletion
- It limits consumers' sovereignty due to government intervention in allocating resources. This results in production of goods and services not wanted by the people
- A mixed economy discourages self or private incentives most especially when the public sector dominates. This kills local entrepreneurship in the country
- Private monopoly is likely to develop most especially if it is dominated by the private sector. This leads to exploitation of consumers in form of high prices and use of wrong measures
- It leads to quick depletion of resources due to over production thus failing to achieve sustainable development and make future generation vulnerable to scarcity of goods and services
- It results in under provision of public goods like health facilities, roads, power supply etc if the private dominates. This leads to poor standards of living of people
- Unemployment arises when the private sector is outcompeted which also contributes to poor standards of living of people who have been employed in the private sector

Any 8X1=8marks

4 (a) Below is the importance of opportunity cost:

- It helps in determining costs in the market that is to say price of goods and services which should be higher than the opportunity cost of producing such goods and services
- It helps in allocation of resources which have alternative uses. Resources are normally channelled to sectors with least opportunity

- It determines what to consume and what not to consume. This is because human wants are unlimited
- It is important in international trade where there is the theory of comparative advantage which states that a country should specialize in production of a commodity where it incurs the least opportunity cost
- Opportunity cost is important while making public and private expenditure such that the government and the private sector can take decisions basing on opportunity cost i.e. where the opportunity cost is least
- It is important to foreign economy where planning is done by the government which must carry out cost benefit analysis before setting up a project. The project with the least opportunity cost are considered unlike those with the high opportunity cost

*Any 5X2
=10marks*

(b) The following are limitations of opportunity cost in an economy:

- Some factors of production are too specific and therefore they cannot be put to alternative uses hence it is hard to determine where the opportunity cost is least
- Immobility of factors of production i.e. land cannot be taken where there is least opportunity hence limiting the concept of opportunity cost
- Different societies have different costs and benefits hence it is hard to use the concept of opportunity to carry out cost-benefit analysis
- Imperfections in the market limit the theory because the concept assumes a perfectly competitive situation that can never exist in real sense. This is because people are ignorant about existing scarce resources, market prices etc
- In the international trade the theory of opportunity cost limits the development of industries in low developing countries and encourages agricultural production whose prices keep on fluctuating

*Any 5X2
=10marks*

5 (a) **Labour productivity** refers to the amount of output produced per unit of labour employed during a given period of time *2mks*

Whereas

Labour efficiency is the measure of quantity and quality of a commodity that a unit of labour can produce in a given period of time
2mks

(b) **The following are the factors affecting labour productivity and efficiency in an economy:**

- **Level of education and training.** High level of education and training results into a high level of output leading to high productivity of labour while low levels of education results onto low output levels leading to low productivity of labour.
- **Working conditions.** Poor working conditions result into low output levels leading to low labour productivity for example poor feeding, hygiene, etc while favourable working conditions like a clean work place with safe drinking water, free lunch, protective equipment like gloves lead to high output hence high productivity of labour.
- **Wage level.** High wages encourage workers to produce more output leading to high productivity of labour while low wages discourages labour from producing more leading to low labour productivity.
- **Degree of specialization.** High levels of specialization lead to high output levels hence high labour productivity since it gives workers chance to perform activities that they can do better while low levels of specialization lead to low output levels thereby leading to low to labour productivity.
- **Quality of management and supervision.** Efficient management and supervision results into high output since most workers fear their immediate bosses leading to high labour productivity while inefficient management lowers output levels leading to low productivity of labour since many workers absent themselves from work and others become reluctant.
- **Attitude of workers towards work.** Positive attitude of workers towards work leads to high labour productivity due to high output while a negative attitude of workers towards work leads to low output leading to low labour productivity.

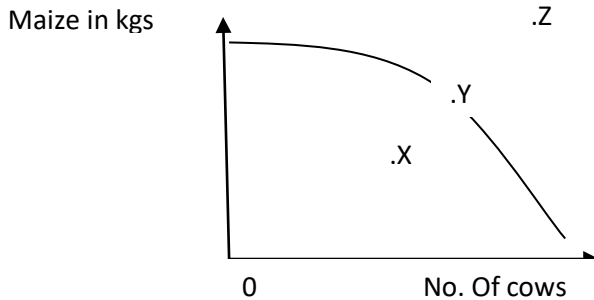
Any 8X2=16marks

- **Availability and quality of other co-operant factors of production.** Presence of efficient co-operant factors of production like land, capital and entrepreneurship results into high labour productivity while inefficient co-operant factors of production like infertile land, inadequate capital lower output leading to low labour productivity and efficiency.
- **Level of experience and seniority.** High experience levels result into high output levels hence high productivity of labour while low experience levels lead to low output hence low labour productivity.
- **Health status of works.** Healthy works produce more output leading to high labour productivity while unhealthy workers produce less output leading to low productivity and efficiency of labour.
- **Level of technology used.** Use of advanced technology increases output levels and of a good quality hence high labour productivity and efficiency for example in agriculture use of tractors yields more output while rudimentary technology leads low output levels and of poor quality hence low labour productivity.
- **Natural ability of workers.** Gifted and strong workers produce more output levels leading to high labour productivity while weak ones produce less output leading to low productivity of labour.
- **Political climate.** Workers in politically stable areas concentrate and produce more output leading to high labour productivity and efficiency while those in politically unstable areas produce less output hence leading to high low labour productivity.
- **Level of innovations and inventions among workers.** High level of innovation and inventions among workers lead to high labour productivity and efficiency due to the ability to come up with new methods of productions or to improve on the existing methods/products but low levels of innovations and inventions lead to low labour productivity and efficiency

END

SECTION A

- 1 (a)(i) Define **opportunity cost curve** (1mark)
 (ii) Study the figure below and answer the questions that follow



Explain the meaning of X, Y and Z on the opportunity cost curve (3marks)

- (b)(i) Distinguish between free goods and public goods (2marks)
 (ii) Why leisure is considered an economic good in your country (2marks)
 (c) Mention four salient features of your country's land (4marks)
 (d)(i) Distinguish between division of labour and specialization (2marks)
 (ii) State two types of specialization carried out by firms in your country (2marks)
 (e)(i) Distinguish between ordinary partnership and limited partnership (2marks)
 (ii) Give any two types of partners existing in your country (2marks)

SECTION B

- 2 (a) Explain how price is determined in your country (14marks)
 (b) Discuss the merits of prices in your country (06marks)
 3 (a) Distinguish between demand schedule and demand curve (4marks)
 (b) Account for low effective demand in your country. (16marks)
 4 (a) Discuss the types of co-operatives operating in your country (10marks)

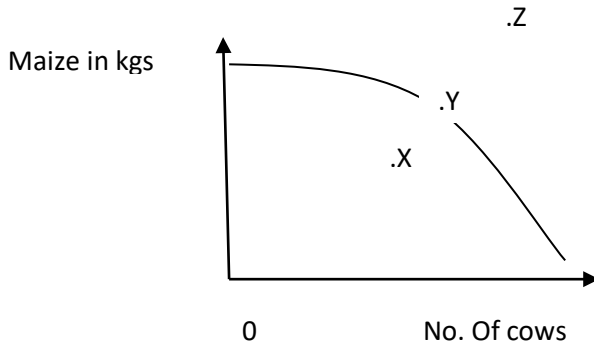
- (b) Explain the role of cooperatives in the development of your country (10marks)
- 5 (a) How does profit differ from other rewards to factors of production (4marks)
- (b) Explain the factors limiting the supply of entrepreneurship in your country (16marks)

END

SECTION A

1ai) **Opportunity cost curve.** Is a curve that shows all possible combinations of two commodities that can be maximally produced when all resources are fully and efficiently utilized **1mk**

ii)



The meaning of X, Y and Z on the opportunity cost curve

- X means underutilization of resources
- Z is unattainable due to scarcity of resources
- Y is full utilization of resources

*Any 3X1
=3marks*

b(i) **Free goods** are those that exist in natural abundance and satisfy consumers at zero cost **1mk**

Whereas

Public goods are goods which are collectively consumed, are usually provided by the state, non rivalry in consumption and non- excludable

1mk

ii) **Leisure is considered an economic good because:** **2mks**

- It has monetary value for example to play pool table one usually pays for it
- It has an opportunity cost that is for a person to enjoy a particular type of leisure like watching a film one must fore go an alternative
- It is relatively scarce for instance, a drama play can only be provided by the actors
- Leisure provides satisfaction or utility to the user

*Any 2X1
=2marks*

(c) **The following are features of land**

- Land is a free gift of nature
- Its supply is limited
- Land is geographically immobile
- Land has no cost of production –its supply price is zero because it is already in existence
- Its productivity can be increased by using other factors like capital and labour
- Its quality and value differ from one geographical location to another

*Any 4X1
=4marks*

d(i) **Division of labour** refers to a situation where a worker(s) concentrate on a particular task in the production process of a single commodity leaving other tasks to be performed by other people

1mk

Whereas

Specialization is the concentration of an individual or a region on one or a few activities in which he/it has the greatest ability and leaves other activities to be performed by others **1mk**

dii) **The following are types of specialization**

- Specialization by process
- Specialization by skill craft
- Specialization by region
- International specialization

*Any 2X1
=2marks*

e(i) **Ordinary partnership** is a partnership in which all the members have unlimited liability that is to say they are responsible for the firms debts to the extent of risking their personal property **1mk**

Whereas

Limited partnership is that partnership in which the liability of the members is restricted only to the nominal amount of capital they have put in the business **1mk**

ii) The following are the types of partners

- Dormant partner
- Active partner
- Major partner
- Minor partner
- Quasi partner
- Limited partner
- General partner

Any 2X1=2marks

SECTION B

2.(a) The following are ways of determining prices in Uganda

- By haggling. This is where price is determined by negotiations between the buyer and the seller who agree upon the price at which to exchange the commodity
- Through auctioning. This method involves assembling of goods before the respective buyers who compete until the highest bidder is reached to whom they give the goods
- Through price legislation. This method involves the government fixing the minimum price to cater for producers and the maximum price to cater for consumers from being exploited. It is done mainly on essential commodities whose prices are ever escalating
- By psychological pricing. This involves setting a price depending on the psychological satisfaction derived from buying a good at a higher price. This implies that some consumers are charged a high price while others a low price
- Through treaty pricing. This is where producers of particular product reach an agreement over the price at which the product should be exchanged even before its production. This is mainly used by farmers
- Through Cost plus pricing. This method involves setting price after taking into consideration the cost of producing that good or service. They usually set a high price if costs of production are high
- Through marginal cost pricing. This involves setting a price at a point where marginal cost equal to marginal revenue

- By price lining. This involves retailers agreeing on the price at which they are to sell their output
- Through average cost pricing. This method is also being used by producers where they set a price at appoint where average cost is equal to average revenue
- Price leadership
- Resale price maintenance

*Any 7X2
=14marks*

The following are merits of prices in my country:

- Prices assist in allocation of resources in the country. Resources are allocated to the production of commodities whose price is high
- Price determines the value of goods and services in the country. That is to say the higher the price, the higher the value of the commodity and the lower the price, the lower the value of the commodity
- Price is used by the government to determine the level of profits of the producers. This is because the higher the price, the higher the profits earned and the lower the price, the lower the profits under normal circumstances
- Price regulates the consumption of some goods and services. For example undesirable commodities like cigarettes are highly priced to discourage their consumption
- Prices are rewards to factors of production in form of wages given to workers, profits earned by entrepreneurs, rent earned from land etc
- It determines the distribution of goods to different areas of the country. Resources are highly distributed to places with high prices

Any 6X1=6marks

3.(a) **A demand schedule** is the table showing the amount of commodity that are demanded at various prices other factors remaining constant

2mks

Whereas

A demand curve is the graphical representation of the demand schedule. It shows the relationship between the price and the quantity purchased at a particular time **2mks**

3. (b)The following are factors leading to low effective demand:

- High market prices of commodities. Prices of most commodities in the country are escalating and this reduces the purchasing power of very many people leading to low effective demand
- Low income levels of consumers. Generally demand for a commodity falls when consumer's income falls. In Uganda the percapita income is very low leading to low purchasing power thus low effective demand for goods and services
- Negative tastes and preferences of people on some commodities. The low effective demand for some goods and services is explained by negative tastes and preferences towards such commodities for example pork for Muslims, cigarettes for non smokers etc
- Unfavorable government policy of high taxation and low subsidization. High taxes reduce the disposable income of consumers and also increase the cost of production which is shifted by the producers to consumers inform of high prices. This reduces the purchasing power of consumers leading to low effective demand
- Low level of advertising. In Uganda there is low level of advertising of existing goods and services making many people not aware of such goods and services leading to low demand
- Off- seasons of some commodities also lead to low effective demand to such commodities. People tend to buy on-season commodities leaving those outdated thus low demand
- Uneven distribution of income. This leads to low effective demand because majority are poor and few with high incomes have high marginal propensity to save thus leading to low demand for goods and services
- Increase in prices of complements. High prices of major commodities like car. Shoes result in low demand for their counter parts(minor commodities) like petrol, shoe polish etc

Any 8X2=16marks

4. (a) The following are types of co-operatives:

- Consumer co-operatives. These are owned and operated by a group of final consumers to purchase and distribute goods primarily to the members at minimum prices
- Producers' co-operatives. These are owned and operated by producers to carry out the production, processing, transportation and

*Any 5X2
=10marks*

marketing of their produce collectively. In Uganda, these are mainly in the agricultural subsector

- Savings and credit co-operative societies. These encourage savings among the members and also advance credit facilities to them for purposes of improving their economic activities
- Whole sale co-operative societies. These consist of major/primary consumer cooperative societies with the main objective of controlling the production and distribution of goods for the benefit of members
- Transport co-operatives. These are established primarily to assist consumers or producer co-operatives with transport

The following are the roles of co-operatives in the development of my country

- Co-operatives provide credit facilities to individuals. Savings and credit co-operatives provide loans to farmers which enables them to supplement their capital base and operate on a large scale
- They educate and develop skills of their members for instant, producer co-operatives educate farmers on better methods of farming. This increases total output thus accelerating economic growth
- They help in stabilizing prices of products by directly negotiating with buyers or controlling supply thus stabilizing prices of agricultural produce
- Co-operatives provide useful channels through which loans and other cheap inputs can be given to the farmers thus facilitating agriculture modernization
- They promote saving habits among members which increase capital formation thus accelerating the rate of economic growth and development
- Co-operative societies facilitate the development of infrastructure which is an incentive to greater production. This is through setting up of storage facilities, schools and colleges etc. This is very vital in the development of the country
- They carry out research and extend research findings to the producers which result into more and better quality output leading to economic growth and development

- They assist in the transformation of the economy from subsistence to a monetary one. This is achieved through encouraging small producers to increase production for the market
- Co-operatives increase economic activities in the country there by providing more employment opportunities to the people for example transport managers, accountants, engineers etc
- They reduce exploitation of their members by other business owners through combining their effort to fight against it

*Any 10X1
=10marks*

5. (a) Profit differs from earning to other factors in the following ways:

- Profit may be negative (loss) while other factor payments are usually positive
- Profits are uncertain unlike other factor payments i.e. the entrepreneur is not aware of the amount is going to get from his/her investment
- Profits are non-contractual in that they are only received in future when the business prospers
- It is the only residual payment which remains after all other factors have received their earnings
- They fluctuate more than any other factor payment

*Any 4X1
=4marks*

b) The following are the factors limiting the supply of entrepreneurship in Uganda:

- Innappropriate education system in Uganda limits the supply of entrepreneurs. This is because it is too theoretical with limited emphasis on vocational skills that can increase the supply of entrepreneurs thus producing job seekers rather than job makers
- Low level of economic development. In Uganda there is low level of economic activities which do not attract entrepreneurs from creating more economic activities leading to low supply of entrepreneurs
- The small market size in the country. This limits the supply of entrepreneurs because it discourages many from investing their resources in different economic activities with no market
- Inadequate capital and other resources limit the supply of entrepreneurs. Inadequate capital existing in Uganda limits the level of economic activities because it is used to start a business, paying

workers, accessing loans etc. This makes many potential entrepreneurs unable to set up various businesses thus limiting their supply

- Poor government policy in relation to investment. The investment climate in Uganda is associated with lengthy procedures of accessing trading licenses, corruption, high taxes on local entrepreneurs and low subsidies all these limit the supply of entrepreneurship
- Low level of profits earned by the existing entrepreneurs in Uganda. This limits other potential entrepreneurs from investing their resources in Uganda because it is not profitable yet the reward for entrepreneurship is profit thus limiting their supply
- Unstable political climate in Uganda limits the supply of entrepreneurship. This is characterized by constant demonstrations, strikes, riots etc which scare away potential entrepreneurs because they are not certain of the security of their property and lives
- Under developed infrastructure in the country. The state of Infrastructure in Uganda is poor for example there is unstable and inadequate power supply, poor transport network especially in rural areas, uneven distribution of banks etc which discourage many potential entrepreneurs from investing in different economic activities
- Negative attitude towards work among Ugandans. This limits the supply of entrepreneurs in the country because many people do not want to work, they have negative culture towards work for example men among the Karamajongs are not supposed to work, it is the women to work for them

<i>Any 8X2 =16marks</i>

SECTION A

- 1 (a) (i) Distinguish between **a normal good and an inferior good** (2 marks)
- (ii) Consumer goods and capital goods (2 marks)
- (b) Outline any four causes of inward shift of the production possibility frontier curve in an economy (4marks)
- (c) (i) Define aggregate demand (1mark)
- (ii) Outline any three components of aggregate demand (3marks)
- (d) (i) Distinguish between public limited company and private limited company (2marks)
- (ii) State two features of a private limited company (2marks)
- (e) (i) Distinguish between specific factors and non-specific factors (2marks)
- (ii) State the relationship between specificity of a factor of production and its mobility (2marks)

SECTION B

- 2 (a) Distinguish between horizontal integration and vertical integration (4 marks)
- (b) Explain the advantages accruing from merging of firms in an economy (16 marks)
3. Explain the advantages and disadvantages of sole proprietorship over partnership business (20 marks)
4. (a) Distinguish between change in demand and change in quantity demanded (6marks)
- (b) Examine the factors influencing change in demand in an economy (14marks)
5. (a) With illustration explain the relationship between marginal utility and total utility (10marks)
- (b) Explain the limitations of the law of diminishing marginal utility (10marks)

SECTION A

1 (a)(i) **A normal good** is a good whose consumption increases with increase in consumer's income **1mark**

Whereas

An inferior good is a good whose demand falls as consumer's income rise **1mark**

(ii) **Consumer goods** are those which satisfy people's wants directly for example durable goods such as radios **1 mark**

Whereas

Capital goods are goods, which help in the production of other goods for example machinery, tools etc **1mark**

(b) **The following are the causes of inward shift of the ppf curve:**

- Reduction in the supply of natural resources/exhaustion of resources
- Decline in the size of the labour force
- Decline in workers, efficiency
- Decrease in the size of capital inflow
- Break down in technology
- Decline in market size
- Occurrence of economic depression
- Political instability /Decline in political stability
- Unfavorable government policy of increased taxation

*Any 4X1
=4marks*

(c) (i) **Aggregate demand** refers to the total planned expenditure on goods and services by all the buyers at a given price level and time period **1mark**

(ii) **The following are components of aggregate demand**

- Consumption expenditure
- Investment expenditure
- Government expenditure
- Expenditure on exports
- Expenditure on imports

*Any 3X1
=3marks*

(d)(i) **A public limited company** is a business unit comprising of seven to an infinite number of share holders who have pooled capital to run a business with a view of making profits **1mark**

Whereas

A private limited company refers to a business consisting of a minimum of two and a maximum of fifty members, who have pooled resources with the aim of making profits **1mark**

ii) **The following are the features of a private limited company:**

- Membership is restricted from two to fifty share-holders
- It is not allowed by law to issue shares to the general public
- Owners may participate in the running of the business
- It only requires certificate of incorporation to commence business
- It is not required to publish its accounts to the public
- Shares are not freely transferrable

<i>Any 2X1 =2marks</i>

(e)(i) **Specific factors.** These are factors of production which are specialized in a particular kind of production in such a way that they cannot easily be used for any other purpose other than that for which they were originally designed **(1mark)**

Whereas

Non-specific factors are those that can easily be transferred from one use to another **(1mark)**

ii) **The relationship between specificity of a factor of production and its mobility**

The more specificity of the factor of production, the more immobile and the less the specificity of a factor, the more mobile of that factor

2marks

SECTION B

2 (a) **Horizontal integration** is the bringing together assets of two or more firms in the same industry but at the same levels/stages of production to tap economies of scale **(2marks)**

Whereas

Vertical integration is the joining of two or more firms in the same industry but at different levels/stages of production together for example a raw material firm and a processing firm (2marks)

(b)The following are advantages of merging of firms in an economy:

- It reduces competition for inputs for example raw materials among firms in an economy. This results in production of sufficient goods and services
- It widens the market for a firm's production due to reduced competition. This is because merging involves absorption of some firms. This increases profitability of the merging firm
- It increases a firm's accessibility to skilled labour which leads to production of good quality output. This is due large capital base from very many firms being merged required to pay skilled labour
- It safe guards financial loss to the declining firms as a result of merging with a booming firm
- It results in full capacity utilization of resources because of minimal wastage and costs from competition
- Merging of firms results in reduced prices due to low cost of production thus enabling low income earners to access goods and services
- Merging of firms increases the firm's accessibility to loans/credit facilities. This is due to possession of enough collateral security from very many merged firms. This facilitate the smooth running of the firm
- It result into increased output which accelerates the rate of economic growth and development
- It results in improved efficiency in management due to sharing of skilled and experienced personnel
- Merging of firms reduces cost of advertising as a result of reduced competition
- Sharing of risks is possible which reduces firm's uncertainty

3a) The following are advantages of sole proprietorship over partnership:

- Sole proprietorship business is easy to start since it requires little capital to start compared to partnership business which require large capital to start which is difficult to accumulate

Any 8X2=16marks

- Decision making is quite easy under sole proprietorship business since there is no need to consult any one unlike in partnership business where different partners must be consulted before a final decision is made. This delays the decision making process
- All profits are enjoyed by one person this motivates him/her to work harder for the success of the business unlike in partnership business where profits are shared by many including minor partners. This demotivates hard working partners and encourage laziness among workers since there share is guaranteed
- There is secrecy in sole proprietorship business since it is a one man's business unlike in partnership business where partners are obliged to publish business affairs to all partners leading to revealing of business secrets to untrustworthy partners
- There is easy flexibility of the enterprise to allow adjustment to changes in market conditions like increase in demand unlike in partnership business which carries out duties only specified in the partnership deed
- There is direct contact with customers and staff in sole proprietorship business and this promotes efficiency due to quick feedback compared to a partnership business where there is no personal contact between customers and partners

Any 5X2=10marks

The following are disadvantages of sole proprietorship over partnership business:

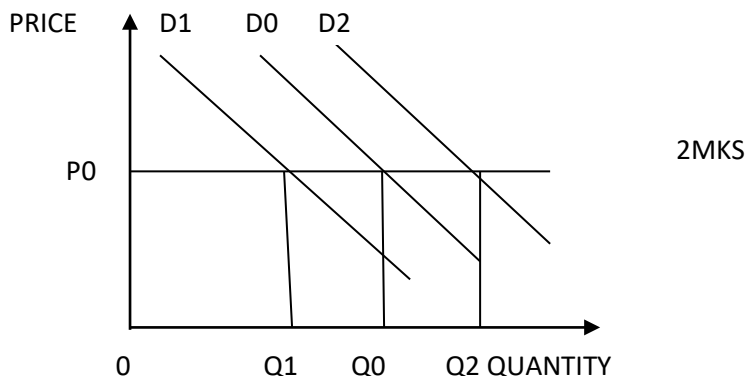
- A sole proprietorship business faces unlimited liability in case the business fails, the owner is personally responsible for all the debts unlike in partnership business where some partners have limited liability even the business makes losses no personal property can be confiscated
- There is limited ability to acquire capital for expansion due to inadequate collateral security compare to a partnership business with a large capital base from very many partners and enough collateral security to access loans from various financial institutions
- There is a lot of uncertainty in the continuity of the business most especially in case of sickness of the owner unlike in partnership where there is continuity since the death one partner cannot lead to the collapse of the business

Any 5X2=10marks

- It does not enjoy economies of scale due to its small nature as compared to partnership where there is enjoyment of economies of scale as a result of operating on a large scale
- A sole proprietor enjoys low quality life due to overworking compared to partners in business who enjoy good quality life since tasks are shared among many
- Low profits are enjoyed by a sole proprietor as compared to a partnership business with huge profits enjoyed by the members

4. (a) **Change in demand** refers to either an increase or decrease in demand of a commodity at a constant price resulting from other factors that influence demand. *2mks*

ILLUSTRATION OF CHANGE IN DEMAND

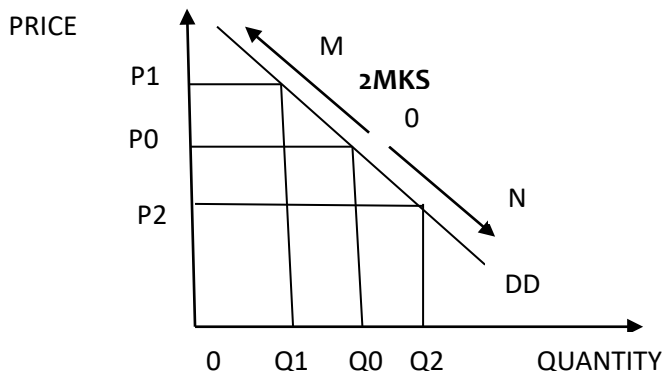


The shift of the demand curve from **D0 to D1** shows a decrease in demand whereas the shift of the demand curve from **D0 to D2** shows an increase in demand

Whereas

Change in quantity demanded. Refers to an increase or decrease in the amount demanded of a commodity due to changes in its own price, other factors affecting demand being constant *2mks*

ILLUSTRATION OF CHANGE IN QUANTITY DEMANDED



oN is the increase in quantity demanded (contraction) whereas **oM** is the decrease in quantity demanded (expansion)

(b) The following are factors influencing change in demand in an economy:

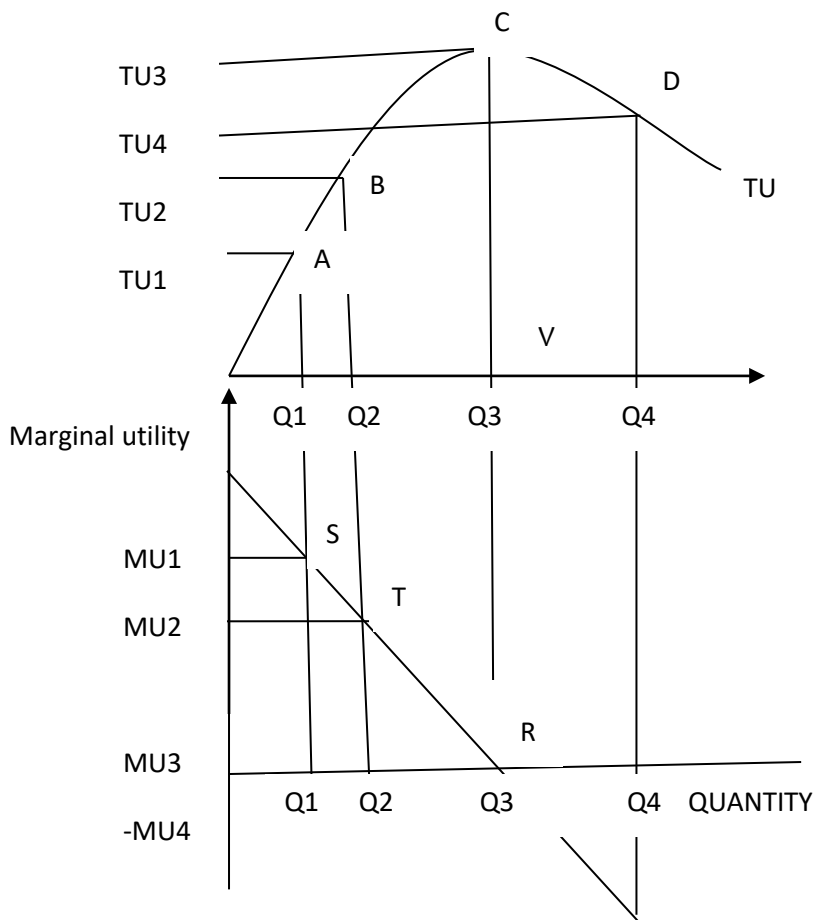
- Change in consumer's disposable income. An increase in consumer's income increases the demand for a normal good due to the increase in the purchasing power while a decrease in the consumer's disposable income decreases the demand for a normal good due to the decrease in the purchasing power.
- Change in the price of complements. These are commodities which are jointly demanded, an increase in the price of one commodity decreases the demand for the other. For example an increase in the price of a major commodity (car) reduces the demand for a minor commodity (fuel) while a decrease in price one complement increases the demand for a another commodity
- Change in price of substitutes. These are commodities which serve the same purpose, an increase in the price of one commodity increases the demand for the other whose price has remained fixed while a decrease in the price of one commodity increases the demand for the other whose price has remained fixed for example omo and nomi
- Change in tastes and preference of a commodity. A change in the taste and preference in favor of a commodity increases its demand

while unfavorable change in taste and preference of a commodity reduces its demand

- Expectation of future price change of a commodity. Expectation of a rise in the price of the commodity in the nearby future, increases its current demand but expectation of a fall in the price of the commodity in the nearby future decreases its current demand
- Change in economic conditions, during the period of economic depression or recession demand decreases due to the fall in income levels and purchasing powers while during the period of economic boom demand for a commodity increases due to increase in levels of income leading to increase in purchasing power
- Change in government policy of subsidization and taxation. Increase in consumer's subsidization by the government or decrease in taxes increases the purchasing power of consumers thus increasing their demand for goods and services while a decrease in subsidization of consumers or increase in taxes decreases the demand for goods and services due to a decrease in their purchasing power
- Change in the size of the population. An increase in the number of people increases the demand of commodities if it is backed by the ability to pay whereas a decrease in the size of the population leads to a decrease in the demand for commodities
- Change in the level of advertisement of the commodity. Increase in the level of advertisement increases the demand for a commodity due to increase in the degree of awareness while a decrease in the level of advertising reduces the demand for a commodity due to the decrease in the level of awareness
- Change in seasons. For commodities that are demanded in particular periods their demand increase when it is the right period for their use for example examination cards during examination periods and then decreases after the expiry of their periods

*Any 7X2
=14marks*

5a) ILLUSTRATION OF THE RELATIONSHIP BETWEEN MARGINAL UTILITY AND TOTAL UTILITY



When total utility is increasing from TU₁ to TU₃ marginal utility decreases from MU₁ to MU₃ **2mks**

When total utility is at maximum at point C marginal utility is at zero at point R **2mks**

When total utility is decreasing from C to D marginal utility is in negatives at point V **2mks**

The following are the limitations of the law of diminishing marginal utility

- Utility is a subjective concept which cannot be measured by any instrument. It varies from one person to another thus limiting the operation of the law since it assumes that utility is an objective concept which can be measured in utils
- Money is an imperfect measure of utility because it has no constant value which limits the theory. If there is a fall in the value of money it will imply that the consumer does not derive the same utility from homogeneous units of the commodity as the theory assumes
- Man does not act rationally as the theory assumes that is to say man does not bother to measure carefully the marginal utility of the commodity he/she buys. At times he/she acts on band wagon
- The existence of indivisible commodities limits the theory because it assumes that a commodity should be divisible i.e. divided into different units. There some commodities which cannot be divided into different units like services such as treatment
- It ignores the existences of substitutes, complements and other related goods limits the theory. This is because the theory only assumes a single commodity with no substitutes which is unrealistic
- For some goods the more one has, the more one wants for such commodities implying that marginal utility increases as one consumes more for example money, gold etc. This limits the theory because it assumes that as one consumes more of a commodity his/her marginal utility diminishes
- Taste, consumption habits and incomes of people are ever changing and this limits the operation of the law because it assumes constant tastes and preferences of consumers

*Any 5X2
=10marks*

END

SECTION A (20 MARKS)*Answer all parts of this question*

- (a) (i) What are public goods? (01 mark)
(ii) Outline any three challenges faced by your country when providing public goods. (03 marks)
- (b) (i) State the law of diminishing returns. (01 mark)
(ii) Give any three assumptions of the law of diminishing returns. (03 marks)
- (c) (i) State the Big-push theory of economic growth.
(ii) Mention any three benefits of adopting the Big-push theory in developing countries. (03 marks)
- (d) (i) Define the term credit multiplier.
(ii) Given an initial deposit of Shs. 750,000 and a cash ratio of 20%, calculate the total credit created. (03 marks)

SECTION B (80 MARKS)*Answer any four questions from this section.*

2. (a) Why may a government impose price controls in an economy? (10 marks)
(b) Examine the implications of price controls in an economy. (10 marks)
3. (a) Given that in a two sector economy;
Marginal propensity to consume = 0.75,
Investment = US\$ 5 billion,
Income US\$ 250 billion.
- (i) Calculate the value of the multiplier. (02 marks)
(ii) If investment increases by US dollars 1 billion, determine the new equilibrium level of National income. (02 marks)
- (b) Assess the factors that determine the level of National income in an economy (16 marks)
- (c) (i) What is meant by the term trade diversion? (01 mark)
(ii) Give any three effects of trade diversion in an economy (03 marks)
4. (a) Why is there need for industrialisation in less developed countries?
(b) Explain the problems faced by the industrial sector in less developed countries (10 marks)

5. (a) Distinguish between over-population and optimum population. *(04 marks)*
(b) Assess the implications of overpopulation in an economy. *(16 marks)*
6. (a) Explain the causes of open-urban unemployment in an economy. *(10 marks)*
(b) Suggest measures that can be adopted to reduce open-urban unemployment in an economy. *(10 marks)*
7. (a) What is the role of the National budget in an economy? *(10 marks)*
(b) Suggest measures that should be taken to control budgetary deficits *(10 marks)*

SECTION A (20 MARKS)

- (a) (i) public goods are those which when provided for a particular group of people or individuals become available for other to use at zero or no extra cost. The consumption by one person does not reduce the amount available to other users. (1 mark)

- (ii) Three challenges faced when providing public goods in Uganda are:

- Inadequate funds/ capital
- Corruption and embezzlement of funds by public officials
- Poor infrastructure
- Political instability
- Limited commitment
- Political interference in management
- Inadequate skills
- High rates of inflation
- Poor technology
- Poor land tenure systems
- Occurrence of natural calamities, making it difficult to provide and maintain
- Poor management/ poor management skills
- High levels of bureaucracy/ red tape
- Foreign interference

*Any 3 × 1
= 3 marks*

- (b) (i) the law of diminishing returns states that as more and more units of a variable factors are applied to a given quantity of a fixed factors the marginal products/ output first rise, reaches a maximum point and then diminishes (1 mark)

- (ii) Three assumption of the law are;

- Existence of a variable factor
- Existence of a fixed factor
- The technology is constant
- Units of the variable facto are homogeneous/ equally efficient/ the variable factor is easily divisible into small units.
- Constant factor prices (i.e. constant wages rent etc.)
- Short run period

*Any 3 × 1
= 3 marks*

(c) (i) the big push theory state that , for a backward economy (i.e. LDC) to take off into a self- sustained growth, a massive investment programme in industries and economic infrastructure is required

(1 mark)

(ii) Three benefits of adopting the big- push theory in developing countries are:

- Increased employment opportunities
- Promotes economic diversification
- Development of infrastructure
- Increased revenue from taxation
- Improved balance of payments position
- Increased exploitation and certification of resources
- Promotes linkage/ market
- Reduced economics dependence
- Facilitates technological transfer and development.
- Increased GDP /Economic growth
- Improved terms of trade
- Improved of local skills
- Increased variety of products

<i>Any 3 × 1 = 3 marks</i>

(d) (i) credit multiplier is the number of times by which an initial bank deposit multipliers itself to generate a final change in the total deposit, Or

Credit multiplier is the number of times initial deposit in a bank is multiplied to give total credit created/ total deposit.

(ii) Total credit created= initial deposit x 1/cash ratio

Or initial deposit x credit multipliers

(01marks)

= 750,000 shs x 1/20/100 substitution

(01 marks)

=750,000x1x100/20

750,000x5

Ugs shs 3,750,000 (01 marks)

(e)(i) Trade diversion is where after economics integration there is a shift in (the locus of) trade from members state to high cost members country.

(01 marks)

(ii) Three effects of trade diversion in the economy are.

- High prices due to high cost trade
- Growth of infant industries in the economy
- Low quality goods due to limited competition
- Loss of tax revenue
- Limited variety of goods/ limited choices
- Smuggling of cheaper commodities from non- members states
- Poor terms of trade.

*Any 3× 1
= 3 marks*

SECTION B (80 MARKS)

2. (a) reasons why a government may impose prices controls

- To protect consumers from exploitation
- To maintain prices stability/ economic growth
- To make commodities available to all groups of people in the economy.
- To establish industrial peace where prices of products and factors are controlled
- To control/ regulate monopoly power
- To enable producers realise stable incomes
- To control the production and consumption of undesirable product/ harmful products
- To reduce income inequality/wages differentials
- To win political supports from the masses.
- To help the economy off-self /recover from) an economic depression/ recession

*Any 10× 1
= 10 marks*

(b) Implication of price control

Positive implications of price control

- It protects consumers from exploitation i.e maximum price
- It protects producers from exploitation i.e minimum price
- It controls monopoly power i.e maximum price
- Price stability is maintained i.e maximum price
- It leads to increased output i.e minimum price
- It helps to make commodities available to all groups of people i.e maximum

*Any 5× 1
= 5 marks*

- It helps to establish industrial peace
- Enables producers realise stable incomes i.e. min prices
- Discourages the production and consumption of undesirable products/ harmful products
- It helps an economy to offset an economic depression/ recession i.e. minimum price.
- It reduces income inequality/ wages differential i.e. min price
- It helps government to win political support.

Negative implications of price control.

- It leads to unmanageable surpluses storage problems min
- It reduces incentive for the private entrepreneurs and firm slow down economic growth i.e. max price.
- It leads to unemployment due to reduces investments
- It leads to shortages in supply due to increased demand
- It leads to inefficient allocation of resources due to distortion of the price mechanism
- It is expensive for the government to enforce/High administrative costs
- It encourages trade malpractice e.g. smuggling, hoarding, black marketing etc.
- It leads to increased costs of production i.e. min price/wage
- It leads to reduction in social welfare due to high cost of living i.e. minimum price
- Production at excess capacity/ underutilisation of resources i.e. max price.

<i>Any 5 × 1 = 5 marks</i>

2. the value of the multiplier

$$K = 1/1 - MPC \text{ OR } K = 1/MPS$$

(01 marks)

$$= 1/1 - 0.75 = 1/0.25 = 100/25$$

$$K = 4$$

Dy (increase in income) Kx increase in investment

(01 marks)

$$= 4 \times 1,000,000,000$$

$$= 4 \text{ billion. US}$$

New equilibrium levels of income = orig. income + change in income

(01 mark)

$$= 250 \text{ billion} + 4 \text{ billion}$$

$$= \text{US } \$254 \text{ billion}$$

(01 marks)

(b) Assessing the factors that determine the levels of national income:

- The entrepreneurial ability skills
- The existing stock of capital
- The techniques of production used
- The labour skills
- The level of infrastructural development
- The market size/ level of demand
- Investment climate/availability of investment incentives/ government/ government policy on taxation and subsidization
- The land tenure system.
- The degree of price stability rate of inflation
- Political atmosphere/climate
- Level of monetisation of the economy/size of the subsidised Sector
- The population growth rate
- Level of savings
- Level of savings
- Level of accountability
- The degree of conservatism
- Attitude towards work
- Level of exploitation and utilisation of natural sources.

<i>Any 8× 2 = 16 marks</i>

3. (a) reasons why there is need for industrialisation in less developed countries.

- To create more employment opportunities
- To stabilise price
- To facilitate development of infrastructure
- To increase output hence economic growth
- To encourage production of high quality output
- To improve balance of payment position/ increase foreign exchange earnings
- To provide revenue to government through taxation
- To diversify the economy/ for structure changes
- To improve terms of trade
- To encourage technological development
- To promote development of entrepreneurial skills
- To improve labour skills
- For the purpose of attracting capital inflow foreign investment
- To promote linkage/ widen market

<i>Any 10× 1 = 10 marks</i>

(b) Problems faced by the industrial sector in less develop countries

- Limited capital stock
- Poor infrastructure
- Limited entrepreneurial skills
- Limited skilled manpower
- Limited domestic and foreign markets/ high MPM
- Under developed capital markets
- Poor technology
- High levels of taxation
- High levels of corruption in the sector
- Political instability
- Limited supply of raw materials
- Poor land tenure system
- High capital out flow/ income and profit repatriation
- Economic instability / high rates of inflation

*Any 10× 1
= 10 marks*

4. (a) over –population is the population size where there are more people than resources can sustain resulting in a fall in average products as the population grows

Or It is the population size where output per person fails as the population is the increase

While optimum population Is the ideal population size which provides labour force which is sufficient to combine with existing cooperate factors leading to maximum output per worker / per capital income is higher.

(02 mark)

(b) Implications of over population: **Positive implications.**

- Provides a large market size high labour supply
- Increased tax revenue to government
- Stimulates investment
- The government is awakened to its responsibility of providing necessary infrastructure
- Increased exploitation and utilisation of resources
- Increased exploitation and utilisation of resources
- Reduces perception social overhead costs
- Initiates efforts to work harder to sustain the predominantly dependent population
- Encourages labour mobility
- Encourages innovations and inventions.

*Any 8× 1
= 8 marks*

Negative implications of over population

- Low labour productivity
- High dependency burden leading to low savings
- High levels of unemployment and underemployment
- Balance of payments problems because of high import requirement to supplement domestic supply
- Quick depletion of resources due to over exploitation
- Available infrastructure is over strained
- Over straining the planning machinery
- High rates of rural urban migration and its negative effects
- It worsens income inequality
- Low income per capital/ low standards of living
- High social costs inform of pollution, congestion
- High government expenditure on providing of social services
- It result in brain drain
- Limited domestic market due to low incomes.

*Any 8× 1
= 8 marks*

5. (a) causes of open – urban migration

- High population growth rates in rural areas
- Poor education system which prepares people for white colour jobs.
- Technological advancement is rural areas
- Limited skills among job seekers in urban areas
- Discrimination in the labour market
- Structural adjustment programmes e.g. retrenchment of the workers.
- Poor land tenure system
- Political instability in some parts of the country
- Low demand for goods and services
- Low rate of industrialisation in urban areas
- Lack of information about existing jobs
- Changing/ switching jobs by labour

*Any 10× 1
= 10 marks*

(b) Measures that can be adopted to reduce open-urban unemployment in an economy

- Advertise /publish the available jobs
- Widen markets
- Population control to reduce high population growth rate

*Any 10× 1
= 10 marks*

- Education reforms/ proper man power planning
- Undertake land reforms
- Encourage use of appropriate technology
- Undertake economic diversification
- Promote political stability in all parts of the country
- Liberations of the economy
- Promote industrialisation in rural areas
- Provide credit facilities to local investors
- Under take infrastructural development

6. (a) the role of the national budget

- Creation of employment opportunities
- Attaining price stability controls inflation
- Protection of infant industries
- Reducing income inequality equitable distribution of income
- Discouraging production and consumption of undesirable/harmful products
- It is used to mobilise resources, both local and foreign/ soliciting foreign aid.
- Raising revenue to finance development through taxation
- Promotion of economic growth
- Influencing resources allocation/ investment
- Promoting regional balanced development
- Helps the government in management of public debt
- Reducing economic dependence
- Regulation of government expenditure
- Improving balance of payments position
- It is used to solicit for political support by government/ mobilisation of the masses

<i>Any 10× 1 = 10 marks</i>

(b) Suggesting measure to control budgetary deficits in developing countries.

- Control population growth rate
- Privatised loss making state enterprises
- Minimise/reduces borrowing
- Promote political stability
- Fight corruption

<i>Any 10× 1 = 10 marks</i>

- Develop infrastructure
- Widen the tax base
- Liberalise the economy
- Increase on non- taxable sources/diversification of the economy
- Reduce the civil/ public service
- Reduce administration units i.e. reduce on local government units, cabinet, parliament etc.
- Encourage income generating activities by creating a favourable economic climate.
- Restructure/ reduce foreign missions and other external commitments
- Proper planning by government to reduce unnecessary expenditures/avoid over ambitions planning
- Encourage cost salary

SECTION A (20 MARKS)*Answer all parts of this question*

- (a) (i) Differentiate between effective demand and derived demand. (02 marks)
- (ii) Give any two factors limiting effective demand for goods and services in Uganda. (02 marks)
- (b) (i) Distinguish between commercial rent and economic rent. (02 marks)
- (ii) Give any two determinants of economic rent in Uganda. (02 marks)
- (c) (i) State any four effects of a young population on Uganda's economy.
- (d) (i) Define the term tax evasion (01 marks)
- (e) (i) What is meant by balance of payments? (01 marks)
- (ii) Give any three ways of correcting a balance of payments deficit in Uganda. (03 marks)

SECTION B (80 MARKS)*Answer any four questions from this section*

2. (a) Describe the different forms of economic dependence in Uganda (8 mark)
- (b) What are the demerits of economic dependence in Uganda? (12marks)
3. (a) Analyse the factors that influence the rate of economic growth in Uganda (10 marks)
- (b) Explain the benefits of economic growth in Uganda
4. (a) Why is there need to modernise the agricultural sector in Uganda (10 marks)
- (b) Describe the factors limiting agricultural modernisation in Uganda.
5. (a) State the iron Law of Wages (10marks)
- (b) To what extent is the iron law of wages applicable in the determination of wages in Uganda? (10 marks)
6. (a) Describe the procedure of compiling the cost of living index. (08 marks)
- (b) Explain the challenges faced when compiling price indices in Uganda.
7. (a) Differentiate between hyper-inflation and mild-inflation.
- (b) Describe the measures being taken to control inflation in Uganda. (16 marks)

SECTION A

(a) (i) effective demand is the desire for /to possess/to acquire a good or service backed by the ability to pay for it.

Or

The actual amount of a good(s) services(s) purchased by the consumer at a given price a given time.

Or the actual buying of goods and services at a given time

While

Derived demand refers to the demand for a commodity good due to the demand for what it helps to produce (for example the demand for factors of production)

(ii) Factors limiting effective demand for goods and services in Uganda

- High prices of goods and services/ high price level.
- Low consumers income.
- Unfavourable tastes and preferences/low quality of good
- Expectations of lower prices/ fall in prices in future
- Unfavourable seasonal factors
- Low level of advertisement
- High tax rate imposed on the goods and services/ low subsidisation of consumers/ by (by government
- High price of complements
- Limited credit facilities
- Small population (size)
- High degree of income inequality/unfair income distribution
- Large subsistence sector/production/ output

(b) (i) commercial rent-refers to the payment made for the hire/ use of a durable ament (which has many uses and these rent it earns refers its opportunity cost)-for example renting land, house, car

While

Economic rent is the payment to a factor of production which is in excess of its transfer earnings(s)/supply prices.

Or

Payment to a factor of production over and above what it would have earned in its next best occupation. (01 mark)

(ii) Determinants of economic rent in Uganda

- The elasticity of supply of the factor
- The supply price of the factor
- The elasticity of demand for the factor
- The degree of substitutability of the factor
- The supply of the factor
- Time period
- Specificity of the factor
- The productivity of the factor
- The productivity of the factor.

(c) Effects of a young population on Uganda's economy are high dependency burden/low savings/ low investment

- Low effective demand
- High government expenditure on provision of social services.
- Low labour supply/ small size of labour forces
- Low labour productivity/ low output
- available infrastructure is over strained
- B.C.P problems due to high import requirements to supplement domestic supply (of consumer goods).
- High demand for goods and services. Government is awakened to its responsibility of providing necessary infrastructure and this leads to increase in output.
- Initiates efforts to work harder to sustain predominantly dependent population.
- Promotes (increased) resources utilisation
- Increase the debt burden
- It is encouraging investment
- Low government revenue from taxation

<i>Any 4 × 1 = 4 marks</i>

(d) (i) tax evasion- is the refusal by the tax payer to pay at the tax assessed / imposed on him/her.

(01 mark)

(ii) Causes of tax evasion in Uganda

- The desire (by the tax payer) to retain/ keep all income
- Ignorance of the tax payers of the advantages of paying taxes

- High levels of corruption in tax administration
- Limited/insufficient services provided to people by the government.
- Weak tax administration/ineffective enforcement of tax laws.
- Unpopularity/unacceptability of the government to some tax payers/political sabotage.
- Un fair tax assessment
- High tax rates.

*Any 3 × 1
= 3 marks*

(e) (i) balance of payment – refers to the difference between a country's receipt/ income from abroad and expenditure/payments abroad during a given time.

Or

It is a systematic record of a country's receipt and payment in international transactions in a given year

Or the differences between income/earnings/ receipts from abroad and payments abroad (both visible and invisible trade and net capital transfers of a country during a given time. *(01 marks)*)

(ii) Ways of correcting balance of payments deficits in Uganda include:

- Restricting trade to discourage imports
- Promoting imports substitution (industrialisation)
- Stabilising the political atmospheres
- Diversification exports
- Diversification of exports markets
- Appealing for debts relief
- Increasing volume of exports
- Training local manpower/providing skills to labour (to reduction dependence on expatriates)
- Improving quality of exports
- Appealing for removal of trade restrictions in exports mark to should negotiate for trade preferences with trading partners.
- (Should) allow the local currency to depreciate.
- Strengthen commodity agreements
- Restructure foreign missions and reduce foreign travels

*Any 3 × 1
= 3 marks*

SECTION B

2. (a) description of the different forms of economic dependence in Uganda:

Sectoral dependence- dependent on agriculture sector

Trade dependence – dependent ... on exportation of few products

Geographical concentration of trade

Reliant on importation of goods and services; external resources

dependence – reliant on foreign capital skill labour and technology
foreign factor

Direct economic dependence- reliance on foreign decisions

*Any 4 × 2
= 8 marks*

(b) Demerits of economic dependence in Uganda:

- Balance of payments deficits/ problems
- Leads to poor terms of trade
- Under- utilisation of natural resources
- Leads to underemployment and unemployment
- Leads to cultural erosion.
- Discourage/ kills local initiatives/encourages laziness/.
- Stagnates the development of local technology.
- The economy is subjected to inappropriate and undesirable decisions.
- Leads to price fluctuations
- Retards the development/survival of local industries/ firms
- Leads to domination of the economy by foreigners
- Accelerates capital out flows
- Discourages domestic savings and investment.
- Leads to fluctuation in incomes (of producers).
- Limits imports capacity due to low exports earnings
- It leads to fluctuation in incomes
- Leads to political interference in the economy by foreigners.
- Leads to debt burden
- Distorts (economic) planning

*Any 6 × 2
= 12 marks*

3. (a) analysis of the factors that influence the rate economic growth in Uganda:

- The (levels of) skill of labour.
- The entrepreneurial ability

*Any 5 × 2
= 10 marks*

- The levels of infrastructural development
- The political atmosphere.
- The political size
- The techniques of production/ the levels of technology
- The land tenure system.
- The rate of inflation/ the degree of price stability/ the exchange rate stability.
- The existing (stock of) capital
- The level of monetisation of the economy
- The government policy of investment/ the availability incentives to investors.
- The population growth rate
- The level of savings
- The levels of exploitation of resources
- The levels of accountability
- The degree of conservation/cultural
- The attitude to work.

(b) Benefits of economic growth in Uganda.

- Provides employment opportunities
- Encourages exploitation of resources hence avoidance of wastage.
- Facilitates development of labour skills
- Promotes development of entrepreneurial ability
- Promotes infrastructural development
- Reduces dependence(on other economics)
- Enhances technological development.
- Leads to increased industrialisation/diversifies the economy.
- Improves B.O.P position/increases forex earnings
- Breaks/reduces conservation/cultural rigidities/backwardness.
- Widened consumer choices.
- Provides revenue to government (through taxation)
- Reduces/ controls inflation.

<p><i>Any 10×1 = 10 marks</i></p>

4 (a) why there is need to modernise agricultural sector in Uganda:

- To increase output/ hence economic growth
- To create employment opportunities/ to minimise seasonal unemployment.

- To reduce income inequality
- To reduce dependence (on imports/few economic activities)
- To provide (more revenue to government.
- To improve terms of trade.
- To stabilise/ increase producers income/stabilisation of the products
- To promote food security and ensure a health populations.
- To promote innovations and inventions/technological development...
- To control/ minimise solve (structural) inflation.
- To improve, B.O.P, position, to increase foreign exchange earnings/ to improve T.O.T
- To promote balance in sectorial/regional to reduce R.U.M ltd development.
- To utilise (land) resources.
- To widen consumer choices
- To promote industrial development/create sectoral/linkages.
- To improve/ increase labour skills.
- To promote entrepreneurship (skills).
- To increase quality of output.

<i>Any 10× 1 = 10 marks</i>

(b) factors limiting agricultural modernisation in Uganda.

- Under- developed infrastructures.
- Unfavourable/ unpredictable natural factors/natural hazards.
- Limited labour skills.
- Unfavourable political climate/atmospheres.
- Limited capital funds.
- Poor techniques of production.
- Poor land tenure system.
- Poor entrepreneurial ability.
- Low/ fluctuating prices for agricultural products.
- Conservation (of most farmers).
- Unfavourable/rugged topography.
- Low level of accountability.

<i>Any 10× 1 = 10 marks</i>

5. (a) the iron law of wages (also known as the subsistence theory of wages) states that workers should be paid wages to enables them meet their bare subsistence living (So that they can work harder after experiencing hardships like hunger)

(04 marks)

(b) The extent of applicability of the iron law of wages in the determination of wages in Uganda;

(i) To a small extent the iron law of wages is applicable in determination of wages in Uganda because:

- Casual workers/unskilled labourers are paid basing on the level of their subsistence needs.
- In the subsistence sector of Uganda rewards to workers is based on basic needs- hence applicability of the law.
- Employers in a bid to retain cheap labour tend to pay workers' wages which are just enough to cater for their substance needs.
- Entrepreneurs due to profit maximisation goal pay workers' wages which are just enough to meet their subsistence needs (only)
- Employees due to high levels of unemployment are willing to accept low wage rates as long as it covers their subsistence needs.

(ii) To a larger extent the iron law of wages is not applicable in determination of wages in Uganda for the following reasons.

- The low theory approaches the problems of wage determination entirely from supply side; it ignores the demand for labour entirely thus difficulty in using it.
- The theory relates wage rates to birth rates/population growth (rate) which is not the case in Uganda's labour market.
- According to the theory all workers should receive the same wage (rate) which is not the case in Uganda (where wages differ).
- The theory does not consider the fact that the bare minimum (needs) varies from time to time depending on price levels, economic conditions, etc.
- The theory is only applicable to the subsistence sector/in subsistence level of living but not to the commercialised sectors for Uganda's economy which use other considerations in wages determination.
- Trade union influence in wages determination is not taken into consideration by the theory.
- Contrary to (assertion of the) law employees work harder when unpaid higher wages/ do not work when paid (very) low wages.

<i>Any 5 × 2 = 10 marks</i>

6. (a) Description of the procedure of computing the cost of living index:

- Choosing a base year. One in which prices were stable.
- Selecting a (representative) basket of goods and services in the basket both in the current (year) and in the base year.
- Calculation of price relative/ simple (prices) index for each commodity (in the basket) using the formula:
$$\text{Simple price index/price relative for each commodity} = \frac{\text{current year price}}{\text{base year price}} \times 100$$
- Computing the average simple (price) index/price relatives using the formula:
$$\text{Average simple index / APR} = \frac{\{\text{simple index for each commodity}\}}{\text{number of commodity}}$$
- Attachment of weight to the commodities in the basket selected goods according to the frequency by which they are exchanged).
- Calculating the weighted index for each commodity) using the formula:
$$\text{Weighted index} = \text{price relative/ simple (price) index} \times \text{weight}$$
- Calculating the average weighted index;
$$\text{Average weighted index} = \frac{\{\text{weighted index/simple index weight}\}}$$

*Any 8 × 1
= 8 marks*

(b) Challenges faced when compiling price indices in Uganda.

- Difficulty in choosing a base year.
- Difficulty in selecting a representative basket of goods and services.
- Difficulty in attaching weights to goods and services/problem of weighting.
- Changes in the level of prices over time/ price instability.
- Limited data/ information.
- Emergence of new products and exit of old ones.
- Changes in and preferences.
- Absence of standard weights and measures.
- Absence of uniform prices due to use of bargaining in price determination
- Limited skills of stratifications/limited labour skills.
- Limited facilities.
- Quality improvements(s) that usually affect prices of goods.

*Any 6 × 2
= 12 marks*

- Changes in importance attached to products due to changing conditions in the economy.

7(a) hyperinflation – is a persistent increase in the (average/general) price level at a high fast rate (i.e. at 10% or more per annum). (02 marks)

Where as

Mild inflation is one in which the persistent increase in the general price level is at a slow/ low rate (usually less than 10% per annum/ month).

(02 marks).

(b) Measure being taken to control inflation in Uganda

- Reducing government expenditure.
- Increase direct taxes.
- Developing infrastructures.
- Modernising agriculture.
- Providing tax incentives to investors
- Maintaining stable political atmosphere/improving the political climate.
- Liberalising the economy
- Privatising public assets/enterprises.
- Regulating/ discouraging exportation of essential goods.
- Under taking contractionary monetary policy.
- Controlling issuance of currency.
- Encouraging importation (of essential goods and services) from cheaper sources (to supplement domestic supply).
- Reducing government borrowing from the central bank.
- Promoting industrialisation/under taking imports substitution industrialisation.

<p><i>Any 8 × 2</i> <i>= 16 marks</i></p>

SECTION A (20 MARKS)***Answer all parts of this question***

- (a) (i) Differentiate between vertical and horizontal integration of firms. (02 marks)
(ii) Give any two factors limiting the integration of firms in Uganda. (02 marks)
- (b) (i) Distinguish between economic growth and economic development. (02 marks)
(ii) State any two indicators of economic development in Uganda.
- (c) (i) What is meant by the term labour productivity? (01 mark)
(ii) Mention any three causes of low productivity in Uganda. (03 marks)
- (d) Outline any four factors that limit the operation of the principle of comparative advantage in Uganda. (04 marks)
- (e) (i) What is meant by the term fiscal policy? (01 marks)
(ii) State any three instruments of fiscal policy used in Uganda. (03 marks)

SECTION B (80 MARKS)***Answer any four questions from this section***

2. (a) Account for the low level of investment in Uganda. (10 mark)
(b) Explain the measures that have been taken to promote the level of investment in Uganda. (10marks)
3. (a) Why may a country adopt import substitution strategy of industrialization? (10 marks)
(b) Explain the limitations of the import substitution strategy of industrialization in Uganda. (10 marks)
4. (a) Describe the structure of Uganda's population. (10 marks)
(b) Examine the implications of this population structure on Uganda's economy. (10 marks)
5. (a) Explain the role of infrastructure in the economic development process of Uganda (10marks)
(b) What strategies have been taken by the government of Uganda to improve on the infrastructure? (10 marks)
6. (a) Differentiate between a perspective plan and a comprehensive plan.
(b) Suggest measures that should be adopted to improve economic development planning in Uganda. (16 marks)
7. (a) Distinguish between a dead weight debt and a funded debt. (4 marks)
(b) Assess the effects of government borrowing in the development of Uganda. (16 marks)

SECTION A

- (a) (i) vertical integration of firms is the joining or combination of two or more production units in the same industry but at different stages of production. (1 mark)

While

Horizontal integration of firms occur when two or more firms in the same industry at the same stage or level of production units into one production unit (1 mark)

- (ii) factors limiting the integration of firms in Uganda include.

- Fear of high taxation rates
- Limited markets size/low demand
- Fear of unemployment
- Differences in economic objectives of the firms
- Fear of diseconomies of scale (fear of undertaking higher risks fear of complexity of management etc.)
- When firms are dealing in unrelated products requiring different fields of specialisation ,
- Government anti-monopoly legislation
- Fear of loss of direct contact with consumers.
- Reluctance share profits fear to share losses
- Fear of bureaucratic delays.

Any 2 × 1
= 2 marks

- b. (i) Economic growth refers to the persistent quantitative increase in the country's volume of goods and services in a given period of time. OR it is the persistent quantitative increase in the GNP (GDP) of an economy overtime.

While

Economic development is the persistent quantitative and qualitative increase in the goods and services production in an economy over a given time- usually along time like 15-30 years

Or

It is the persistent quantitative and qualitative increase in GDP over a long period of time. (01 mark)

(ii). Indicators of economic development in Uganda include:

- Increase supply of skilled labour/reduced illiteracy
- Increase incomes /investments/out puts
- Increased investments
- Reducing political instability/ improved political atmosphere
- Increased utilisation of the availability resources
- Improvement in the techniques of production/ technology
- (increased) infrastructural development.
- Increased monetisation of the economy/reduction in subsistence sector.
- Increased entrepreneurship
- Improving quality of goods
- Increased markets size
- Increased level of unemployment
- Rise in industrialisation
- Decline in conservation/cultural rigidities
- Diversification of the economy

<i>Any 2× 1 = 2 marks</i>

(c) (i) labour productivity is the measure of output per unit of labour employed (01 marks)

(ii) Low labour/ productivity in Uganda is due to

- Low wages/ poor remuneration of workers
- Use of inappropriate/poor technology
- Low levels of skills
- Poor supervision of works/management/entrepreneurship
- Poor health conditions of many workers
- Poor attitude towards work
- Low levels of experiences and expertise.
- Limited specialisation in production
- Poor working conditions
- Political unrest in some areas
- Limited natural ability/ limited talents
- Limited innovations and inventions/ creativity
- Limited quantity and quality of co-operant factors (capital raw materials etc.)

<i>Any 3× 1 = 3 marks</i>

(d) Factors that limit the operation of the principles of comparative advantage in Uganda include:

- Assumes two countries while there many countries/ dealing with many trading partners /multilateral trade.
- Existence of trade restriction in international trade.
- High transport costs/ignores the transport costs which add to the cost of commodities.
- Currency restrictions and changes in exchange rates/ignores the existence of different currencies used.
- Uganda does not experiences constant costs of production.
- Preference of barter trade in Uganda/ assumes barter trade but in real economy of Uganda, there is monetary exchange.
- Existence of excess capacity in production /absence of full employment in Uganda/wrongly assume the possibility of full employment which is nonexistence in Uganda.
- The desire (need) for self-reliance/ to reduce dependence in Uganda
- Existence of increasing and diminishing returns/ ignores the existence of the law of diminishing returns
- The price elasticity of demand for products produced in Uganda is not perfectly elastic/ is inelastic/ assumes elastic demand yet demand for agricultural products in Uganda is inelastic
- S technology is not constant in Uganda/ variation and changes in techniques of production/] assumes constant technology but in Uganda technology is changing.
- Variation in the prices(s), quality and demand for commodities/ diversification of production for exports.
- Immobility of factors of production externally but assumes internally mobile which is not the case for Uganda/ some degree of labour mobility internationally and immobility (geographically and occupationally internally.
- Supply of resource in Uganda in Uganda is not static
- Assumes two commodities but there are many commodities in Uganda/diversification of exports products.

2(a) reasons for the low of investment in Uganda include.

- Limited capital
- Limited skilled labour
- Limited (low) income
- Limited savings
- Increasing interests rate on capital/ loans
- Small/size of the markets
- Political instability in some areas
- High rate of inflationary tendencies/prices and exchange rate instabilities
- Limited levels of entrepreneurship
- Increasing rate of capital out flows
- Poor land tenure system
- Poorly developed infrastructure
- Conservatism/ cultural rigidities
- High population growth rate and the problems of depending burden
- High (marginal) propensity to import
- High liquidity preference
- High price levels/ inflation.
- Poor investment climate like high corporate taxes, bureaucracy etc.
- High rate of corruption in the economy/ low levels of accountability
- Low levels of technology/ poor production techniques
- Limited supply of raw materials

*Any 10× 1
= 10 marks*

2. (b) Measures that have been taken to promote the level of investment in Uganda include;

- Encouraged savings
- Increased income of the people
- Controlled the high population growth rates
- Improved market (both local and foreign) for local production.
- Improved on infrastructure
- Provided investment incentives e.g. tax holidays
- Undertaken entrepreneurial development and training
- Undertaken privatisation policy
- Pursued economic liberalisation
- Endured political stability in most parts of Uganda
- Undertaken land reforms policy

*Any 10× 1
= 10 marks*

- Ensured macro-economic stability e.g. price stability, exchange rates, and interest rates.
- Provided credited facilities to low income groups
- Tried to ensure proper accountability
- Reduced conservation through sensitisation
- Encouraged technological transfer/ development
- Monetised the economy
- Diversified the economy

3. (a) a country may adopt import substitution strategy of industrialisation for the following reasons

- To improve the country's BOP position/ save scarce foreign exchange/ increase foreign exchange in the long run.
- To diversify the economy
- To reduce the external dependence/attain self- sufficiency.
- To widen the tax base/generate revenue for the government.
- To promote growth of the industrials sector
- To create more employment opportunities
- To facilitate the exploitation/ utilisation of the country's idle resources.
- To increase economies growth rates
- To develop local skills
- To promote local entrepreneurship
- To encourage development of local technology/ transfer of technology.
- To control (imported) inflation/ to stabilise prices
- To promote infrastructural development
- To encourage (foreign) investment/ capital in- flows
- To facilitate the growth of infrastructure
- To create linkages within the sectors/ to create market.

*Any 10× 1
= 10 marks*

(b) Limitations of the import substitution strategy of industrialisation in Uganda include:

- Limited capital stock/ low income levels
- Limited skilled labour to operate industrials machinery
- Limited market size
- Poor infrastructural development.

*Any 10× 1
= 10 marks*

- Limited entrepreneurial skills
- Limited supply of raw materials
- Low levels of technological development
- Political instability in some areas
- High marginal properties to import
- Poor land tenure system
- Price and foreign exchange instabilities
- Low levels accountability
- Poor government policy on investment e.g. taxation bureaucracy

4 (a) description of the structure of Uganda's population.

- It is dominated by the young who constitute over 40% of the population.
- Females are more than males.
- The population is mainly rural base; with approximately 80% of the population living in rural areas.
- Majority of the population are semi- skilled and /or unskilled.
- It is characterised by high illiteracy rates- about 32%.
- Productive forces of the population are mainly engaged in primary production.
- It is characterised by high annual growth rate of about 3% (2.8-3.5%)
- Big population live below international poverty line
- Un even spatial distribution of the population

*Any 8 × 1
= 8 marks*

(b) Positive implications of the population structure include:

- High market potentials
- High potential for labour force
- An incentive potential for massive future investment
- High tax potential
- Initiates efforts to worker harder to sustain the predominantly dependant population
- Government is awakened to its responsibility of providing necessary in fracture- and this leads to increase output.
- Encourages labour mobility
- High potential for increase resources utilisation.
- The young are usually innovative – room for potential invention.
- Reduces per capital social over heads and costs.

*Any 6 × 1
= 6 marks*

Negative implications of the population structure include

- Low labour productivity
- High dependency burden resulting into low savings
- Results into unemployment and underemployment
- Low effective demand/ limited domestic market
- External resources dependence e.g. on foreign manpower
- BOP problems due to high import requirements to supplement domestic supply
- Available infrastructure is over strained.
- Effective planning for the population becomes difficult.
- High government expenditure on provision of social services
- High social cost in form of pollution congestion etc.
- Results into brain drain
- High rate of rural- urban migration and its negative implications.
- Perpetuates/ causes income inequality
- Exerts pressure on land
- Quick depletion of resources due to over exploitation
- Leads to increase/ worsens debt burdens

*Any 6 × 1
= 6 marks*

5 (a) roles of infrastructure in the economic development process of Uganda.

- Promoting investments/capital inflows
- Promoting the development of labour skills
- Promotion of trade/ accessibility to markets
- Facilitating optimum/ increased utilisation of idle resources
- Provision of employment opportunities
- Promotion of savings
- Improving social welfare of the people
- Promoting industrial development
- Increasing productivity/ growth of GDP hence economic growth rates
- Monetisation of the economy/ agricultural development/
- Facilitating innovation and invention/Technological development
- Fighting inflation
- Promoted diversification
- Promoting entrepreneurial skills
- Generated revenue to the government
- Leading to increased foreign exchange.

*Any 10 × 1
= 10 marks*

(b) Strategies that have been taken by the government of Uganda to improve on the infrastructure include:

- Constructed infrastructure
- Rehabilitated/ renovated/maintained infrastructure
- Contracted private firms to develop infrastructure
- Set up supportive institution such as UNRA, UCC etc.
- Raised funds both locally and extremely
- Improved labour skills
- Imported modern technology
- Liberalised investments in the sector/economy
- Provided incentives to investors in the sector
- Diversified the sector
- Developed/decentralised the sector/providing road equipment to local authorities.
- Undertaken private public partnership
- Changed land tenure system/ provided/acquired land for infrastructural development
- Improved political/atmosphere

*Any 5 × 1
= 5 marks*

6(a) a perspective plans is one whose targets and objective are set and covered after a long period of time like 10 years or more (02 marks)

WHILE

A comprehensive plan is one which covers all (most) sectors of the economy.

(02 marks)

(b) Measures that should be taken to improve economic development planning in Uganda;

- Raising sufficient funds
- Ensure proper data collection
- Promote autonomy of the planning authority (us)/ discourage political interference in planning
- Ensure government commitment in planning
- Ensure efficiency of the planning machinery/ provide skills to planers
- Ensure peaceful/ stable political atmosphere
- Stabilise prices/ fighter control inflation
- Avoid over ambitious planning
- Minimise/ avoid/ reduce dependence on foreign aid which is inconsistent, inadequate tied etc.

*Any 8 × 2
= 16 marks*

- Minimise/ avoid dependence on nature
- Develop infrastructure
- Encourage proper accountability
- Sensitise the private sector on her role in planning.

7 (a) a dead weigh debt is that which is used to cover unproductive expenditure and is not self-liquidating (02 marks)

WHILE

A funded debt is one with long repayment period (02 marks)

(b) Assessment of the effects of public borrowing in the development of Uganda.

(i) Positive effects of public borrowing

- It supplemented government revenue/ filled the government revenue expenditure gap
- Reduces negative effects of taxation on work efforts and consumption/ eases the burden of taxation citizens
- Fills the man power gap; increase labour skills
- Helps to fill the savings- investment gap/ raise funds for investment
- Narrows the technological gap/ facilities importation of modern technology.
- Helps to fight demand pull inflation- the case with internal borrowing
- Increase employment opportunities
- Fills the foreign exchange gap/finances BOP deficits in the short run.
- Sustain markers by leaving consumers with adequate disposable incomes.
- Helps to settle debts
- Promotes industries development
- Increased idle resources utilisation
- Leads to economic growth
- Alleviates effects to natural calamities
- Improved relationship/ friendship between my country and donors
- Leads to infrastructural development

<p><i>Any 9×1</i> = 9 marks</p>

(ii) Negative effects of government borrowing;

- Encourages dependence/laziness
- Undermines capital formation due to debt payment
- It is inflationary (the case with external borrowing)
- Worsen the B.O.P position
- Shifts the burden of debts payment to the future generations who may not have benefited from the debt but pay it
- Worsening income inequality
- Leads to manipulation of the country by foreigners
- Leads to misallocation of resources/extravagance/corruption
- Citizens are being burden by taxes to raise revenue for debt payment
- External debt payment limits import capacity
- Undermines private investment due to public borrowing out competing private investment in both the money and capital markets.
- Nationals denied essential goods due to debt repayment.

<i>Any 7× 1 = 7 marks</i>

SECTION A

1. (a) (i) State the law of supply (1 mark)
(ii) Give any three causes of a decrease in supply of goods (3 marks)
- (b) (i) What is meant by a **dual economy** (1 mark)
(ii) Mention any three advantages of a dual economy (3 marks)
- (c) (i) Define import substitution strategy of industrial development (1 mark)
(ii) Outline any three disadvantages of adopting import substitution industrial strategy in LDCs (3 marks)
- (d) (i) Distinguish between **structural inflation** and **cost push inflation** (2 marks)
(ii) State any two causes of cost push inflation in an economy (2 marks)
- (e) (i) Distinguish between a **deficit budget** and a **surplus budget** (2 marks)
(ii) Mention any two reasons why a country may prepare a deficit budget (2 marks)

SECTION B

2. (a) Explain the importance of computing national income in an economy (8 marks)
(b) Examine the causes of low levels of national income in developing economies (12 marks)
3. (a) Distinguish between a **shutdown point** and a **breakeven point** of a firm (4 marks)
(b) Justify the reasons why a firm may continue to operate even if its revenue does not cover the fixed costs (16 marks)
4. (a) Explain the reasons for stabilizing prices of agricultural products in an economy (8 marks)
(b) Suggest measures that should be adopted to stabilize prices of agricultural products in developing countries (12 marks)

5. Study the table below and answer the questions that follow

Commodity	Base year price 2010	Base year simple index	Current prices 2013	Weight
Sugar(kg)	1500	100	2100	4
Beans(kg)	300	100	450	3
Rice(kg)	1200	100	1500	2
Bread($\frac{1}{2}$ kg)	1200	100	1800	1

- (a) Calculate the
- (i) Simple price index (02 marks)
 - (ii) Average price index (02 marks)
 - (iii) Weighted price index (02 marks)
- For the year 2013
- (b) Explain the uses of price indices in an economy (14 marks)
- 6 (a) Why is it necessary to formulate an economic development plan in a country? (08 marks)
- (b) Explain the factors that limit successful implementation of economic development plans in developing countries (12 marks)
- 7 (a) What is a **parastatal** organization? (02 marks)
- (b) Describe the roles of parastatals organizations in an economy (18 marks)

SECTION A (20 MARKS)

- (a) (i) **The law of supply** states that the higher the price, the higher the quantity supplied by a commodity and the lower the price, the lower the quantity supplied, other factors being constant / ceteris – paribus. (01 mark)

- (ii) **Three causes of a decrease in supply of goods are:-**

- A decline in the price of a jointly supplied good or product
- Increase in the price of a competitively supplied commodity
- A change in the objective of the producer from sales – revenue maximization to profit maximization
- Political atmosphere becoming unfavourable
- Break down in infrastructure
- Increase in the costs of production
- Depreciation of capital or machines
- A fall in efficiency of factors of production
- A decrease in supply of factors of production or raw materials
- Expectation of future price increase
- Government policy on production becoming unfavourable or increase in taxes and removal of subsidies
- A decline or fall in demand or market for the product
- A decline in technology
- Gestation period becoming longer
- Working conditions becoming unfavourable
- Decrease in the number of producers or exit of firms
- Natural factors becoming unfavourable for the case of agriculture

*Any 3 × 1
= 3 marks*

- (b) (i) **A dual economy** is one where there is co – existence of two contrasting sectors or phenomenal situations, one advanced or modern and the other backward or traditional, one superior and the other inferior, one desirable and the other undesirable. (01 mark)

(ii) **Three advantages of a dual economy are:**

- Government raises a lot of revenue through progressive taxation of the modern sector
- The government is awakened to its responsibility of providing utilities for the less developed regions or individual
- It provides impetus for research and planning to identify ways and means of developing the economy
- It fosters factor mobility from traditional sector to modern sector
- It promotes diversification in the economy due to existence of firms in both formal and informal sectors of the economy
- It increases employment, both in the formal and informal sectors.

<i>Any 3 × 1 = 3 marks</i>

- (c) (i) **Import substitution strategy of industrial development** refers to a strategy of establishing industries internally or domestically to produce goods formerly imported.

Or

It is a strategy that involves establishing or encouraging the local manufacturing industries to produce goods which were previously or formerly imported.

1 mark

(ii) **Three disadvantages of adopting import substitution, industrial strategy in developing countries.**

- Increased government expenditure to support such industries by way of subsidies and other concessions
- Poor quality goods are produced due to limited competition
- Firms operate at excess capacity due to limited market, capital etc.
- It subjects nationals to highly priced goods because firms tend to be high cost firms
- It leads to rural – urban migration and its associated evils
- It is associated with income and profit repatriation or capital outflow where many industries are foreign owned
- It is associated with social costs e.g. pollution/deforestation
- It leads to technological unemployment because of use of capital intensive techniques of production

- It leads to irrational use of resources, hence quick depletion of resources
- Limited variety of goods are produced, hence limiting consumer choice
- Management contracts are usually expensive to maintain due to use of foreign manpower
- A fall in government revenue due to a decline in import duties in the short run
- It leads to retaliation by trading partners or beggar my neighbour policy.
- Monopoly tendencies are promoted due to protectionism
- It tends to concentrate on production of consumer goods at the expense of capital goods
- It worsens balance of payment position of LDCs due to importation of highly priced inputs.

<i>Any 3 × 1 = 3 marks</i>

- (d) (i) **Structural inflation** refers to the persistent increase in the general price level due to supply rigidities or structural bottlenecks in the economy leading to a decline or fall in supply of goods and services. *01 mark*

Whereas Cost push inflation is the persistent increase in the general price level that arises out of increase in the costs of production of goods and services. *01 mark*

- (ii) **Two causes of cost push inflation are:-**

- Rising costs (prices) of fuel / power / energy
- Depreciation / devaluation of the local currency against foreign currencies
- Rising costs (prices) of imported inputs / raw materials
- Rising wages / salaries
- Rising tax levels
- Increasing transport costs
- Rising costs of advertising / sales promotion
- Increasing costs of borrowing / interest rates
- Rising costs of rent / storage facilities

<i>Any 2 × 1 = 2 marks</i>

- (e) (i) **A deficit budget** is one where government expected or estimated/ anticipated / projected / planned expenditure is greater than the government planned / anticipated / expected revenue in a given financial year. *01 mark*

While

A surplus budget is one where the government expected or planned / anticipated / projected expenditure / estimated is less than the government expected / planned revenue in a given financial year.

01 mark

(ii) **Two reasons why a country may prepare a deficit budget: -**

- To increase aggregate demand and stimulate production in the economy
- To close or cure a deflationary gap / slump / recession
- To avoid negative effects associated with high taxation
- To increase consumption by raising disposable incomes of the people (through low taxes) / improve people's welfare
- To encourage investment
- To win political support
- Borrowing may be quicker and cheaper in raising
- To encourage borrowing
- To solicit for foreign aid

<i>Any 2 × 1 = 2 marks</i>

SECTION B (80 MARKS)

2. (a) **Explaining the importance of computing national income.**

- National income figures are useful for economic analysis and planning
- It is used to show the levels of development or standard of living by way of per capita income.
- It is used to indicate the rate of economic growth and development
- International agencies giving aid may require information about national income to see which sector they can aid
- National income figures are used for international comparison e.g. standard of living between countries
- It is used for comparison purposes over time e.g. the standard of living in a country
- It is used to show income distribution or resource distribution and helps on appropriate action to be taken
- It helps to show the expenditure patterns within the country

<i>Any 8 × 1 = 8 marks</i>

- It shows the structure of the economy and identifies weaknesses of the structure for future action / it identifies a leading sector / lagging sector
- National income figures show the level of resource exploitation
- The figures show the extent of a country's dependence on other economies.

(b) Causes of low levels of national income in developing countries.

- Low levels of natural resources and exploitation
- Small size of market, both local and foreign markets
- Low levels of infrastructural development
- Poor political climate or political instability
- Low level of existing stock of capital / inadequate capital
- Low levels of entrepreneurial ability
- High population growth rates
- Existence of a large subsistence sector or low level of monetization
- Low levels of skills of labour / low levels of education
- Low levels of savings
- High rates of inflation
- Low level of productivity of labour and other co-operant factors.
- Unfavourable government policy on investment e.g. high levels of taxation
- Un favourable cultural factors e.g. conservatism
- Low levels of technology
- Poor land tenure system
- High levels of corruption / low levels of accountability
- Negative attitude towards work
- High levels of dependence on foreign aid or negative foreign influence
- Low levels of industrial development

<i>Any 12 × 1 = 12 marks</i>

3. Shut down point is a point below which a firm cannot cover its average variable costs (AR = AVC)

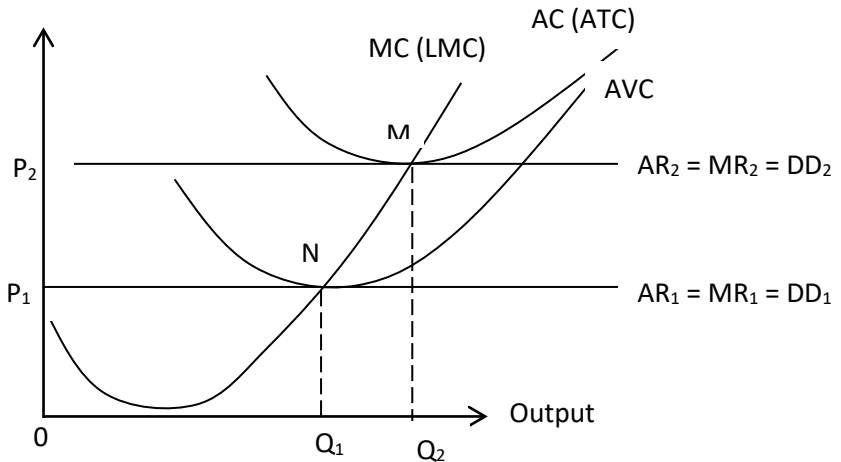
OR

Shut down point is a point where the firm covers only its average variable costs. **02 marks**

Whereas

Break – even point is where a firm earns normal profits ($AR = AC$) i.e. a firm makes neither supernormal profits nor losses. *02 marks*

OR



M = Breakeven point

N = Shut down point

* A well labelled diagram = *04 marks*

(b) **Reasons why a firm may continue operating even if its revenue does not cover the fixed costs.**

- When it is a beginner firm
- When it hopes to change its management
- When there is hope of getting a bank loan
- Fear of loss of market / good will or image
- It may be a research unit or firm
- The high costs may be of seasonal in nature
- Fear of losing skilled labour force / need to return skilled labour for future use
- May be hoping to merge with other firms
- Fear of loss of source of raw materials
- When it is a state-owned firm offering essential services to the people
- If it is a branch of an industry with many profits making branches or firms
- Fear of high costs of depreciation or re – opening

*Any 8 × 2
= 16 marks*

- Fear of losing contracts
- May be choice of the owner i.e. not making profits
- When the firm is able to cover operational costs / variable costs
- Expectation or hope of changing techniques of production
- When it hopes to change the marketing strategies

4. (a) **Reasons for stabilizing prices of agricultural products in an economy are:**

- To stabilize incomes of farmers
- To stabilize balance of payments
- For purposes of ensuring stable government revenue from taxes
- To ease the planning process
- To control income inequalities
- To stabilize foreign exchange earnings
- To control rural – urban migration
- As a means of minimizing unemployment
- To stabilize the terms of trade
- To discourage speculation in the agricultural sector
- To ensure a stable exchange rate
- To encourage investment in agriculture
- To control structural inflation or ensure food security
- To promote growth of the industrial sector by ensuring a steady supply or source of raw materials

<p><i>Any 8×1 = 8 marks</i></p>

(b) **Measures that can / may / should be adopted to stabilize prices of agricultural products in developing countries.**

- Operation of buffer stocks where surplus output is bought by marketing boards during harvest or plenty and sold in periods of scarcity
- Use of stabilization fund policy
- Improve on the storage system so as to stabilize supply
- Improve on the transport / disposal system or improve infrastructure
- Modernization of agriculture to produce better quality products and reduce its dependence on nature e.g. use of irrigation or commercialise agriculture

- Industrialization within agriculture to add value to agricultural products
- Adoption of strict quota system
- Undertake market expansion and diversification
- Strengthen or join international commodity agreements
- Price control by the government by use of minimum price legislation
- Stabilize costs of production through subsidization of the farmers
- Encourage proper planning of production
- Educate / sensitize farmers about price fluctuation
- Encourage cooperatives to regulate supply
- Agricultural diversification
- Use of contract farming or future market arrangement

*Any 12× 1
= 12marks
Use:
should/may/c
an*

5. (a) (i) **Simple price index** (spi) = $\frac{Cyp}{Byp} \times 100$

Thus

Sugar : $\frac{2100}{1500} \times 100 = 140\% \dots\dots\dots \mathbf{01\ mark}$

Beans : $\frac{450}{300} \times 100 = 150\% \dots\dots\dots \mathbf{02\ marks}$

Rice : $\frac{1500}{1200} \times 100 = 125\% \dots\dots\dots \mathbf{01\ mark}$

Bread : $\frac{1800}{1200} \times 100 = 150\% \dots\dots\dots \mathbf{01\ mark}$

(ii) **Average price index** = $\frac{\text{summation of price relative (spi)}}{\text{no. of commodities}}$

01mark

$$= \frac{140 + 150 + 125 + 150}{4}$$

= 141.25.....**01 mark**

(iii) **Weighted price index**

WAPI = $\frac{\text{summation of weighted price indices}}{\text{summation of weights}}$

01 mark

$$\text{OR } \varepsilon \frac{PR \times W}{\varepsilon W}$$

$$\text{WAPI} = 140 \times 4 = 560$$

$$150 \times 3 = 450$$

$$125 \times 2 = 250$$

$$150 \times 1 = 150$$

$$1410$$

$$= \frac{560 + 450 + 250 + 150}{4 + 3 + 2 + 1} = \frac{1410}{10}$$

$$4 + 3 + 2 + 1$$

$$10$$

$$\text{WAPI} = 141 \dots\dots\dots \text{01 mark}$$

(b) **Explaining the uses of price indices in an economy**

- They are used in measuring changes in the value of money i.e. whether there was inflation or deflation
- They are used in wage determination or pension
- They are used in determining tax rates
- They help in deflation of nominal national income so as to obtain real national income
- They help in comparing the cost of living of the people in a country over time
- They help in comparing the cost of living between countries
- They are used to measure the terms of trade of a country
- They help in determining of interest rates

*Any 6 × 2
= 12 marks*

6. (a) **Reasons why it necessary to formulate an economic development plan in a country.**

- For proper allocation of scarce resources
- For equitable redistribution of income or wealth
- To correct the deficiencies of price mechanism, especially during times of rapid structural changes
- To solve the unemployment problems or control unemployment
- For resource mobilization e.g. borrowing
- 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 or solicit for political support

*Any 8 × 1
= 8 marks*

- To attain price stability by influencing production levels
- To correct balance of payments problems
- To solicit for foreign aid / assistance from development partners
- To determine the rate of economic growth and development
- To reduce economic dependence or promote self – sufficiency

(b) Factors that limit successful implementation of economic development plans in developing countries.

- Inadequate funds
- Inadequate necessary statistical data or information
- Non – responsive growing private sector
- Natural calamities
- Limited support or good will by the people or conservation or poor attitude or cultural limitations
- Political instability
- Inefficient implementation machinery or limited skilled labour
- Interference by politicians and / or government
- Plans being too ambitious i.e. far beyond the means
- Corruption on the part of plan formulation and implementers
- High rates of inflation
- Dependence on foreign aid which is inadequate, inconsistent, uncertain, tied etc.
- High population growth rates
- Poor coordination between plan formulators and implementers
- Poor infrastructure
- External / foreign interference

*Any 6×2
= 12marks
Mentioning-1
Explanation-1*

7. (a) **A parastatal organization** is a state-owned enterprise / firm set up by the act of Parliament or government decree to carry out specific functions / activities without putting much emphasis on profit.

02 marks

(b) The role of parastatal organizations in an economy:

- Creation of employment opportunities to the people
- Development of infrastructure
- Raising large capital and thus undertaking large scale operations

- Promoting economic growth and development i.e. they are development oriented
- Provision of essential services to the public at affordable rates or prices e.g. NWSC
- Avoiding foreign domination of the economy
- Undertaking strategic investments or projects of national interest or importance
- Provision of non – profitable but essential goods and services to the public e.g. garbage collection
- Raising revenue for the government
- Ensuring consumer protection against undesirable products
- Controlling private monopoly
- Ensuring fair distribution of resources for balanced economic growth and development
- Mobilization of savings from the public
- Ensuring price and income stability
- Promotion of investment
- Facilitate development of skills through training
- State monopoly enterprises avoid wastage of resources by eliminating or controlling duplication of activities or services

<p><i>Any 9 × 2</i> = 18marks</p>

SECTION A

1. (a) (i) Define **opportunity cost curve** (02 marks)
 (ii) State any two causes of an outward shift of the opportunity cost curve (02 marks)
- (b) (i) Distinguish between **perfect oligopoly** and **collusive oligopoly** (02 marks)
 (ii) Mention any two demerits of collusive oligopoly (02 marks)
- (c) (i) What is meant by **Net National Product** (01 mark)
 (ii) Outline any three statistical problems encountered in measuring Net National Product (03 marks)
- (d) (i) State the theory of **balanced growth** (01 mark)
 (ii) Give any three limitations of the theory of balanced growth in LDCs (03 marks)
- (e) (i) Distinguish between optimum population and under population (02 marks)
 (ii) State any **two** demerits of under population in an economy (02 marks)
- (f) (i) Distinguish between frictional unemployment and causal unemployment (02 marks)
 (ii) Mention any **two** causes of frictional unemployment in economy (02 marks)
- (g) (i) What is **credit creation** (01 mark)
 (ii) Given that the initial deposit is shs. 2250000 and the cash ratio of a bank is 20%. Calculate the final deposit (03 marks)
- (h) (i) Define **multilateral trade** (01 mark)
 (ii) State any **three** challenges of international trade (03 marks)
- (I) (i) What is meant by **comprehensive planning** (01 mark)
 (ii) Give any **three** advantages of comprehensive planning in an economy (03 marks)
- (j) (i) Define a **deficit budget** (01 mark)
 (ii) Outline any **three** reasons for drawing a deficit budget (03 marks)

SECTION B

2. (a) Explain the reasons for stabilizing prices in an economy
(10 marks)
(b) Suggest possible measures that should be taken to stabilize prices of agricultural products
(10 marks)
3. (a) What is meant by **occupational mobility of labour** (2 marks)
(b) Discuss the factors that limit labour mobility in an economy
(18 marks)
4. (a) Explain the arguments in favour of agriculture development
(10 marks)
(b) Examine the arguments against development of agriculture
(10 marks)
5. (a) Why is increasing population may be desirable in an economy
(10 marks)
(b) Explain the problems associated with rapid population growth
(12 marks)
6. (a) Distinguish between **tariff barriers** and **non-tariff barriers**
(4 marks)
(b) Examine the implications of adopting trade barriers (16 marks)
7. (a) What are the merits of decentralized planning (6 marks)
(b) Discuss the challenges encountered in implementing plans in LDCs
(14 marks)
8. (a) Distinguish between **advalorem taxes** and **specific taxes**
(4 marks)
(b) Assess the impact of imposing taxes in an economy (16 marks)

END

SECTION A

1. (a) (i) **The opportunity cost curve** is a graphical presentation or a locus of points that shows combinations of two commodities or categories of commodities that can be produced in an economy when all resources are fully and efficiently utilized. (01 mark)

(ii) **Causes of an outward shift of the opportunity cost curve**

- Increase in the level of capital
- Improvement in the level of technology
- Increase in quantity (size) and quality of labour force
- Improvement in entrepreneurial skills
- Discovery and exploitation of new resources
- Improvement in management efficiency

*Any 3 × 1
= 3 marks*

- (b) (i) **Perfect oligopoly** is where there are few firms producing homogeneous products with very many buyers in the market (01 mark)

While

Collusive oligopoly refers to a situation where the few firms in the market agree on the price and or quantity to be charged and or put on market with many buyers. (01 mark)

(ii) **Demerits of collusive oligopoly.**

- Exploitation of consumers by charging high prices
- Low quality output
- Worsen income inequalities
- Underutilization of resources
- Limited innovations

*Any 2 × 1
= 2 marks*

- (c) (i) **Net national product** is the monetary measure of the value of foods and services produced by nationals of a country in a given period less the value of depreciation. (01 mark)

(ii) Statistical problems encountered in measuring NNP

- Limited information
- Valuing depreciation
- Determining net income from abroad
- Double counting
- Price changes in the economy
- Valuing subsistence output
- Valuing government services
- Valuing inventories and work in progress

*Any 3 × 1
= 3 marks*

- (d) (i) **Theory of balanced growth states** that all sectors of the economy should be developed simultaneously and harmoniously so that they complement each other and grow more or less at the same pace.

(01 mark)

(ii) Limitations of balanced growth

- Limited capital
- Low levels of technology
- Limited entrepreneurial skills
- Limited labour skills
- Limited market
- Poor infrastructure development
- Weak inter sectoral linkages
- Unfavourable investment climate

*Any 3 × 1
= 3 marks*

- (e) (i) **Optimum population** is the level of population that yields maximum level of average output with the existing resources and technical knowledge.

(01 mark)

While

Under population is where there is insufficient labour / population relative to other factors of production which results into less than maximum average output.

(01 mark)

Or

Where the available labour / population is insufficient relative to other factors of production resulting into less than optimal utilization of resources.

(ii) **Demerits of under population**

- it leads to labour shortages
- It results in limited market
- it causes resource under utilization
- It leads to limited specialization and trade
- It results in limited industrialization
- High per capital social overheads are incurred
- Low government revenue
- Net worth whole to set up infrastructure

*Any 2 × 1
= 2 marks*

- (f) (i) **Frictional unemployment** is the type of unemployment resulting from labour switching jobs / in transition from one job to another. *(01 mark)*

While

Causal unemployment is where people work when they get jobs and become unemployed when the jobs are over or unemployment arising from expiry of contracts. *(01 mark)*

(ii) **Causes of frictional unemployment**

- Ignorance of available jobs
- Short term geographical immobility
- Technological progress
- Limited skills
- Changing jobs
- Changes in tastes / market
- Political instabilities

*Any 2 × 1
= 2 marks*

- (g) (i) **Credit creation** is the process by which commercial banks create deposit money in excess of the cash deposits they hold. *(01 mark)*

(ii)

Final Deposit(FD) = Initial Deposit(ID) ×

$$\frac{1}{\text{Cash ratio (r)}}$$

$$\text{FD} = \text{ID} \times \frac{1}{r} \quad (01 \text{ mark})$$

$$= 2,250,000 \times \frac{1}{0.2} \quad (01 \text{ mark})$$

$$= 2,250,000 \times 5$$

$$= \text{shs. } 11, 250,000 \text{ /= } (01 \text{ mark})$$

(h) (i) **Multilateral trade** refers to exchange of goods and services amongst social countries.

(ii) **Challenges of international trade**

- Unfavourable balance of payments
- Unfavourable terms of trade
- Encourages economic dependence
- Causes imported inflation
- Delays industrialization of LDCs
- Sometimes encourages dumping
- Language barriers

Any 3 × 1
= 3 marks

(i) (i) **Comprehensive planning** is one where the plan(s) drawn cover the whole economy or all sectors of the economy.

(01 mark)

(ii) **Advantages of comprehensive planning.**

- Helps to balance regions development
- Integration of the economy
- Optimal utilization of resources
- Help avoid sectoral imbalances
- Reduced economic dependence
- Lowers / control income inequalities

Any 3 × 1
= 3 marks

(j) (i) **Deficit budget** is where government is estimated revenue is less than its estimated expenditures.(1mark)

(ii) **Reasons for drawing a deficit budget**

- To lift economy out of recession
- low taxable capacity
- Fear of political repercussion
- Sometimes it is easier to borrow

Any 3 × 1
= 3 marks

- To avoid negative economic effects of taxation
- Stimulating economy to raise rate of growth
- To raise people's disposable income to enable them consumer more goods to raise standard of living

SECTION B

2. (a) Reasons for stabilizing prices of agriculture products

- To stabilize balance of payments position
- To improve terms of trade
- So as to stabilize people's (farmers') incomes
- To avoid government revenue fluctuations
- Encourage investment in agriculture sector
- For controlling rural urban migration
- In order to control income disparities
- To ease planning for the economy
- To stabilize foreign exchange rates
- To control unemployment
- To facilitate modernization of agriculture therefore reducing frustration of farmers
- Stabilize the economy's capacity to import

*Any 3 × 1
= 3 marks*

(b) Measures to stabilize agriculture prices

- Operation of buffer stocks
- By use of stabilization fund
- Improving storage system
- Improving transport facilities
- Reducing dependence on nature
- Encouraging agro – based industries
- Formation of commodity agreements
- Expansion of agriculture markets
- Encouraging formation of cooperatives
- Price legislation
- Inter sectoral and intra sectoral diversification

3. (a) **Occupational mobility** is the ease with which labour moves from one job to another (02 marks)

(b) Factors that limit labour mobility

- | | |
|--|---|
| - Low wages in alternative jobs / locations | - Natural inabilities / lack of climate abilities |
| - High cost of training to change jobs | - Ignorance of alternative jobs |
| - Long period of training to change jobs | - Low status of alternative jobs |
| - Poor working conditions in alternative jobs | - Social ties |
| - Barriers by trade unions and professional bodies | - Seniority in current job |
| | - Specialization |
| | - Old age |

Any 9 × 2
=18marks

4. (a) **Arguments in favour of agriculture development**

- High employment opportunity level
- Source of food
- Currently major foreign exchange earner
- Helps reduce income inequality
- Relatively cheap to develop
- Quicker returns
- Sources of raw materials to support future industrialization
- Balanced regional development
- Train and release labour to other sectors
- Helps to control rural urban migration
- Raises demand / purchasing power in economy since it employs many people.
- Calls for infrastructural development
- Source of government revenue

Any 10 × 1
=10marks

(b) Arguments against development of agriculture

- Likely to perpetuate B.O.P problems
- Persistent unfavourable terms of trade
- Hampers growth of skills

Any 10 × 1
=10marks

- Worsens economic dependence
- Susceptible to price fluctuation
- Low tax revenue
- Vulnerable to be out competed by growth of synthetic fibres
- Encourages seasonal and disguised unemployment
- Subject to diminishing returns
- Calls for a lot of land which may not be available for some countries
- Long gestation period limits capacity to increase output
- Limits transformation of economy due to poor attitude towards development (conservatism)

5. (a) Why increasing population may be desirable

- Creates a large market for products
- Avails labour to exploit resources
- High government revenue from taxes
- Encourages investment to cater for market
- Avails young innovative population
- Reduces per capital social overhead costs
- High level of resource exploitation
- Encourages specialization
- People work harder to sustain growing population
- Awakens government to provide infrastructure

*Any 8 × 1
=8marks*

(b) Problems associated with rapid population growth

- Exerts high pressure on land
- Worsens income inequalities
- Causes B.O.P problems
- Strains infrastructure
- Over exploitation of resources
- High rates of rural urban migration
- Worsens economic dependence
- High government expenditure on social services
- Unemployment and under employment
- Heavy dependency burden
- Limited market due to growing poverty
- Limited investments due to low savings
- Hard to effectively plan for the economy

*Any 6 × 2
=12marks*

6. (a) **Tariff barriers** are trade restrictions in form of taxes which are imposed on goods crossing national boundaries (02 mark)

While

Non-tariff barriers are trade restrictions which are not in form of taxes imposed on goods crossing national boundaries. (02 mark)

(b) Implications of adopting trade barriers

Positive

- They help to protect domestic firms
- Discourage dumping
- Improve on B.O.P position
- Help to increase employment opportunities
- Reduce economic dependence
- Sources of government revenue
- They help check on imported inflation
- Encourage use of local resources
- Improve on terms of trade
- Reduce political dominance

*Any 7 × 1
=7 marks*

Negative

- Subject people to highly priced foods
- People are forced to consume poor quality goods
- Encourage inefficiency in protected firm
- Encourage monopoly tendencies in the economy
- They limit variety of goods in a country
- They are expensive to implement
- Protected firms hold government at ransom
- Encourage retaliation which reduces gains from trade
- Protected firms tend to remain infant
- They sometimes result into a fall in government revenue
- They encourage malpractices like smuggling, black markets etc
- Limit resource inflow
- They discourage specialization
- Tend to reduce foreign exchange earnings

*Any 7 × 1
=7 marks*

7. (a) **Merits of decentralized planning**

- Promotes use of local resources
- Encourages balanced regional development
- Promotes sense of belonging, commitment
- Puts into consideration local interests
- Appropriate for very large countries
- Efficient use of resources
- Encourages equitable income distribution
- Improves on revenue collection
- Encourages division of labour between local and central authorities

*Any 6 × 1
=6 marks*

(b) **Challenges encountered in implementing plan in LDCs.**

- Limited information
- Ambitious plans
- Limited funds to finance plans
- Dependence on unreliable foreign aid
- Price instabilities
- Political interference
- Limited commitment by people and government
- Natural calamities
- Large non – responsive private sector
- Political turmoil
- Corruption
- Limited personnel that are qualified to implement plans
- Under development infrastructure

*Any 7 × 2
=14marks*

8. (a) **Advalorem taxes** are those that are levied basing on the value of the good. They are imposed/ expressed as percentage of the value of good or service. (02 marks)

While

Specific taxes are imposed on units of goods irrespective of the changes in the costs of production. (02 marks)

(b) Impact of imposing taxes in economy

Positive

- Help in acquiring revenue (public)
- Used to redistribute income and wealth
- Help to improve the balance of payments position
- Used to influence resource allocation
- Discourage consumption / production of demerit goods
- Influence economic growth rates
- Control monopoly power
- Help in checking demand pull inflation
- Facilitate protection of domestic firms
- Help to prevent dumping
- Help to encourage hard work

*Any 8 × 1
= 8 marks*

Negative implications

- Discourage investments
- Discourage savings
- Discourage consumption thus reducing the purchasing power
- Encourage illegal activities like smuggling
- They are disincentive to effort/hard work
- Indirect taxes are inflationary
- Sometimes divert resources to own productive areas which are less taxed
- Create resentment thus making government unpopular which in the long run can lead to political instability
- Reduce the volume and benefits of trade
- Indirect taxes are regressive

*Any 8 × 1
= 8 marks*

SECTION A

1. (a) (i) What is **price discrimination**? (1mark)
 (ii) Give any three conditions necessary for the success of price discrimination in an economy. (03marks)
- (b) (i) Differentiate between **Gross Domestic Product** (GDP) and **Net Domestic Product**(NDP) (02 marks)
 (ii) Given GDP at factor cost for economy Y is 300 billion € indirect tax (on expenditure) is 100 billion € subsidies are 150 billion € calculate the economy's GDP at market price (02 marks)
- (c) (i) Define the term **informal sector** (01 mark)
 (ii) State any three features of an informal sector.(3marks)
- (d) (i) What are the characteristics of **Rostow's take off stage** of economic growth? (02 marks)
 (ii) Give any two limitations of this theory. (02 marks)
- (e) (i) Define the term **labour efficiency** (01 mark)
 (ii) Give any three factors that determine labour efficiency in an economy. (03marks)
- (f) (i) State the **Keynesian theory** of unemployment. (01 mark)
 (ii) State any three solutions to the Keynesian unemployment problem. (03 marks)
- (g) (i) What is meant by the term **value of money**? (01 marks)
 (ii) Mention any three factors that influence the value of money. (03 marks)
- (h) (i) Distinguish between comparative advantage and absolute advantage as used in international trade. (02 marks)
 (ii) State any two assumptions underlying the principle of comparative advantage. (02 marks)
- (I) (i) Define the term **structural inflation** (01 mark)
 (ii) Mention any three measures that can be taken to control structural inflation in an economy. (03 marks)
- (j) (i) Differentiate between a **reproductive debt** and a **dead weight debt** (02 marks)
 (ii) Mention any two ways of managing a public debt. (02 marks)

SECTION B(60 marks)

2. (a) Distinguish between an increase in supply and an increase in quantity supplied of a commodity. (04 marks)
(b) Explain the factors that lead to an increase in supply of a commodity. (16 marks)
3. (a) Explain the challenges being faced by the private sector in developing countries. (10 marks)
(b) What measures should be taken to promote the private sector in an economy? (10 marks)
4. (a) Explain the factors which determine economic growth in an economy. (10 marks)
(b) State the benefits of economic growth to a country. (10 marks)
5. (a) Explain the **Malthusian population theory**. (6marks)
(b) To what extent is this theory relevant to developing countries? (16 marks)
6. (a) Illustrate how profits are maximized under monopoly. (08 marks)
(b) Explain the merits and demerits of monopoly in an economy. (12 marks)
7. (a) Define the term **perspective planning** (04 marks)
(b) Explain the factors limiting economic development planning in developing countries. (16 marks)
8. (a) Distinguish between **direct taxes** and **indirect taxes**. (04 marks)
(b) Assess the impact of direct taxes on an economy. (16 marks)

END.

SECTION A

1. (a) (i) **Price discrimination** refers to the act by a producer or monopolist or seller charging different prices for a similar or same product to different groups of consumers or to different markets. (01 mark)

(ii) **Three conditions necessary for the success of price discrimination include;**

- The market should be divided into sub – markets e.g. basing on age, income, geographical separation etc.
- Different price elasticity of demand in the different markets
- The producer must be a monopolist or there must be one producer of the commodity or the commodity must not have a close substitute
- The marginal revenue in the different markets should be the same
- High cost of transferring the commodity from one market to another by a consumer or no arbitrage
- Low cost of separating the markets by the producer
- Personal services which cannot be transferred from one person to another e.g. medical services
- The consumer must be ignorant about existence of other cheaper markets
- Where goods are sold on special order on contract
- No government interference in the market.

*Any 3 × 1
= 3 marks*

- (b) (i) **Gross domestic product (GDP)** is the total monetary value of final goods and services produced within the territorial boundaries of a country during a specified period of time usually one year. (01 mark)

While

Net domestic product (NDP) is the total money value of final goods and services produced within the territorial boundaries of a country during a specified period of time, usually one year excluding the value of depreciation. (01 mark)

- (ii) GDP (EC) = 300 B/N£

Ind. Taxes = 100 B/N£

Subsidies = 150 B/N £

GDP (MP) = GDP (FC) - Subsidies + Indirect taxes. (01 mark)

= 300 B/N - 150 B/N + 100 B/N

= 250 B/N£ (01 mark)

(c) (i) **An informal sector** refers to a sector that exists between the traditional / backward sector and a modern sector. (01 mark)

(ii) **Three features of the informal sector are;**

- Dominated by small scale operations
- Produces mainly for domestic market
- Uses mainly simple production techniques or labour intensive techniques of production.
- Produces mainly consumer goods
- Mainly uses local resources
- Limited book keeping
- Mainly semi – urban and urban based
- Dominated by sole proprietorships
- Mainly produces low or poor-quality goods
- Limited government control
- Low productivity
- Uses mainly unskilled and semi – skilled labour

*Any 3 X 1
= 03 marks*

(d) **Characteristics of Rostow's take off stage of economic growth:-**

- High investment : 10 – 15% of GDP / NY / GNP
- High savings : 10 – 15% of GDP / NY / GNP
- Self – sustained growth / self-reliant economy
- Emergence of new economic and political institutions
- High level of employment
- High level of industrialization / a leading sector appears
- Emergence of new markets – domestic and abroad
- High level of urbanization
- High level of technology / high levels of innovation
- Social transformation / high literacy rates
- High levels of infrastructure development

*Any 2 X 1
= 02 marks*

(ii) **Two limitations of the theory**

- It assumes that capital accumulation is the only engine of economic growth, which is not true since there other factors such as markets, skills, technology
- It is difficult to demarcate one stage of growth from the other e.g. 4th and 5th stages.
- He assumed continuity in the road to development yet there could be discontinuity / delays / decline in economic growth
- It does not consider the nature of distribution of income
- It does not consider external factors which affect economic performance.
- High level of savings may not necessarily lead to economic growth
- Some stages may not be necessary – some economies skip some stages in their development process
- Resources are not homogenous in all countries or societies.

*Any 2 X 1
= 02 marks*

- (e) (i) **Efficiency of labour** is the measure of the quantity and quality of output that a unit of labour can produce within a given period of time. (01 mark)

Or

Efficiency of labour is the ability of labour to achieve greater output in a shorter time without any decline in quality of work or output.

- (ii) **Three factors which determine labour efficiency are;**

- Level of education and training or level of skills
- Level of payment or wage rate
- Level of division of labour or specialization
- Working conditions or welfare services to workers
- Physical strength and natural ability or talent
- Quality of management or super vision or organization
- Availability and efficiency of other factors of production or level of technology
- Level of experience or degree of expertise
- Workers' attitudes towards work
- Political climate
- Level of innovations and inventions of individuals

*Any 3 X 1
= 03 marks*

- (f) (i) **The Keynesian theory of unemployment** states that unemployment arises due to deficiency in effective or aggregate demand for final goods and services especially in times of economic recession or depression.

(ii) Three solutions to the Keynesian unemployment

- Reducing taxes
- Increasing government expenditure
- Expansionary monetary policy
- Subsidization of consumers
- Increasing wages
- Encouraging private investment or increase employment

*Any 3 X 1
= 03 marks*

- (g) (i) **The term value of money** refers to the amount of goods and services a unit of money can buy. (01 mark)

OR

Value of money refers to the purchasing power of a unit of money. (01 mark)

(ii) Three factors that influence the value of money

- The quantity of money in circulation or monetary policy
- The velocity of circulation of money
- Availability of goods and services or transactions
- The price levels or rate of inflation
- Government policy of devaluation

*Any 3 X 1
= 03 marks*

- (h) (i) **Comparative advantage** is a principle that encourages a country to specialize in the production of a commodity in which it has the least opportunity cost in comparison with another country. (01 mark)

Or

Comparative advantage exists when given two countries and two commodities with a given amount of resources, one country can produce one commodity more cheaply or at least opportunity cost than the other or at least opportunity.

(01 mark)

while

Absolute advantage is where given two countries and two commodities with a given amount of resources, one country can produce both commodities more cheaply than the other.

(01 mark)

(ii) The principle of comparative advantage assumes

- Two countries
- Two commodities
- No transport costs
- No trade barriers
- Full employment of resources in both countries
- Constant technology
- Perfect mobility of factors internally or immobility of factors externally
- Barter trade
- Demand is elastic
- Constant comparative advantage in both countries
- Constant returns to scale
- Homogeneity of factors of production
- Tastes are similar in both countries.

*Any 2 X 1
= 02 marks*

- (i) (i) **The term structural inflation** refers to the persistent increase in the general price level arising out of supply rigidities which cause shortages of goods and services in an economy.

(01 mark)

(ii) The measures that can be taken to control structural inflation are;

- Agricultural modernization or diversification
- Rehabilitation and establishment of industries
- Improve infrastructure
- Improve political climate
- Import of raw materials
- Adopt better methods of production in agriculture and industry
- Encourage private local and foreign investors

*Any 3 X 1
= 03 marks*

- (j) (i) A reproductive debt is that which is used to finance projects that bring in returns e.g. used to purchase industrial inputs or real assets i.e. it is a self liquidating debt. (01 mark)

Whereas

A dead weight debt is that which is used to cover unproductive expenditure e.g. buying fire arms, i.e. it is not a self-liquidating debt. (01 mark)

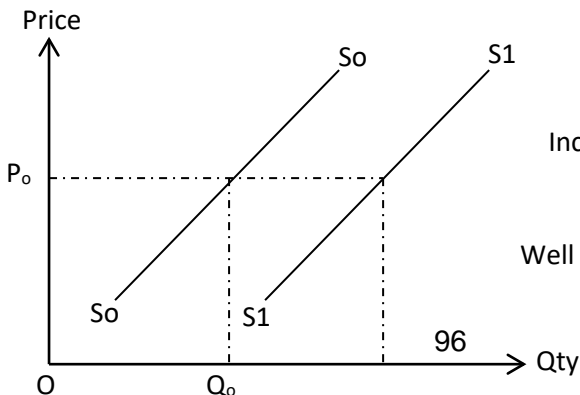
(ii) Two ways of managing a public debt

- Raising revenue by levying taxes
- Use of accumulated profits from state enterprises
- Sale of government securities e.g. treasury bills, bonds etc
- Borrowing from both internal and external sources
- Use of a sinking fund
- Disinvestment
- Operation of a surplus budget
- Debt repudiation
- Debt rescheduling
- Debt conversion
- Negotiation for debt cancellation / relief / waiver
- Financial accommodation or printing more money
- Use of accumulated foreign reserve

*Any 2 X 1
= 02 marks*

SECTION B

2. **An increase in supply** is a situation when at a Constant price more of a commodity is put on the market. (01 mark)
It is illustrated by a shift in the supply curve to the right of the original curve.



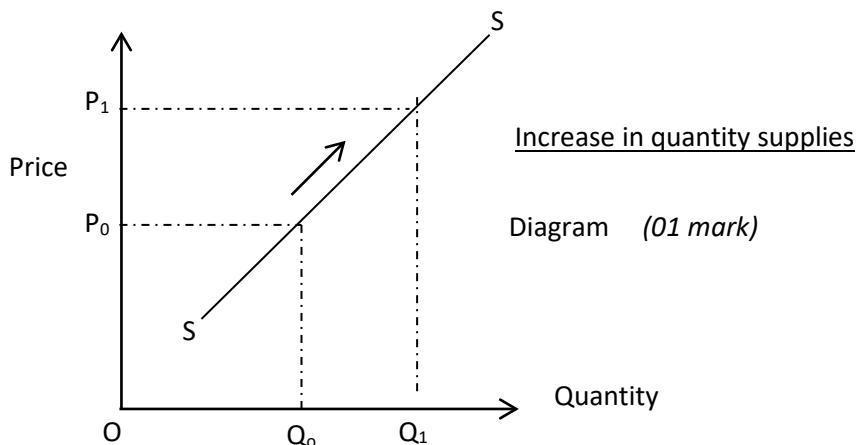
Well labeled diagram (01 mark)

While

An increase in quantity supplied is a situation when the amount of commodity put on the market increases due to increase in the price of the commodity, other factors remaining constant

(01 mark)

It is illustrated by movement along the same supply curve.



(b) factors that lead to an increase in supply of a commodity

- A favourable change in the government policy of taxation and subsidization.
- Favourable change in the climatic conditions.
- Increase in the size of the market
- Decrease in the price of a competitively supplied good.
- Decrease in the cost of production
- Increase in the price of a jointly supplied good
- Favourable changes in political climate
- Increase in the number of producers or suppliers
- Increase in availability of raw materials
- Improvement in technology
- Improvement in infrastructure etc.

*Any 8 X 2
= 16 marks
Mentioning-1
Explanation-1*

3. (a) **Challenges being faced by the private sector in LDCs.**

- Inadequate capital
- Limited skilled manpower
- Small markets due low purchasing power
- Low level of technology
- Limited entrepreneurial skills
- Poor infrastructure
- Corruption
- Unfavourable government policies e.g. high taxation
- Political instability or insecurity in some parts
- Poor land tenure system
- Low or unstable prices or inflation
- Unfavourable natural factors
- Ineffective enforcement of patent or copy rights
- Bureaucratic delays
- Shortage of raw materials
- Stiff competition

*Any 10 X 1
= 10 marks*

(b) **Measures that should be taken to promote the private sector in LDCs.**

- Privatization of the public enterprises
- Liberalisation of the economy
- Provision of credit facilities
- Build sound infrastructure
- Improve or maintenance of stable political climate
- Put in place a favourable investment climate
- Favourable government policies e.g. reducing taxes
increasing subsidization
- Improvement in technology or research
- Expansion of markets both local and foreign
- Increased publicity
- Formation of an investment body or authority
- Maintenance of stable economic climate or control
inflation
- Encourage importation of raw materials
- Under take land reforms
- Man power training
- Fight corruption through anti – corruption legislation (law)

*Any 10 X 1
= 10 marks*

4. (a) **Factors that determine economic growth are:-**

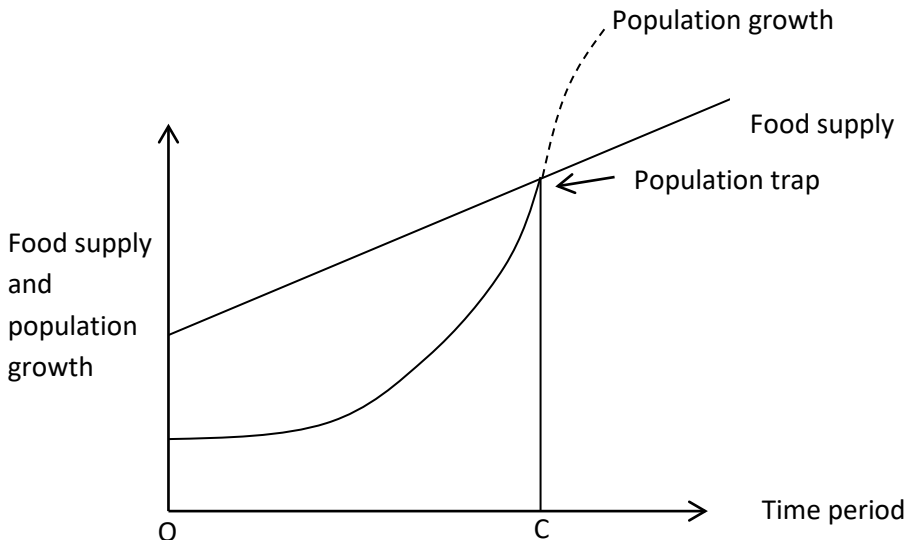
- Level of technological progress
- Level of existing capital stock or level of net capital inflow
- Level of development of infrastructure
- Availability and level of utilization of natural resources
- Nature of labour force or level of skills
- Level of entrepreneurial ability or level of innovations and inventions
- The market size
- Level of industrialization
- Political climate
- Cultural factors e.g. conservatism
- Level of planning and plan implementations
- Nature of foreign influence
- Rate of population growth or population size
- Nature of government policies
- Level of monetization or specialization of the economy
- Size of subsistence sector

*Any 10 X 1
= 10 marks*

5. (a) **Malthusian population theory** says that whereas population grows at a geometric rate, **(01 mark)** food production tended to grow at an arithmetic rate. **(01 mark)**

Malthus said that due to the above trend, population growth after a time, would outstrip food production **(01 mark)** (population trap) and after such a time, there was need to control the population through preventive (negative) **(01 mark)** checks like moral restraint, celibacy etc otherwise positive checks like persistent wars, **(01 mark)** diseases etc would serve to reduce population growth.

This situation is illustrated below;



(01 mark)

(b) **The Malthusian population theory is to a lesser extent applicable to developing countries (LDCs) in that;**

- Land supply being fixed and subject to law of diminishing returns is what is being experienced and he envisaged this situation
- Natural family planning methods or control measures like celibacy are his initiation
- The positive checks on population exist in LDCs today e.g. wars, epidemics etc
- Land problems or disputes are common issues in LDCs
- Some areas in LDCs face food shortages.

To a greater extent, the theory is not applicable to LDCs in that;

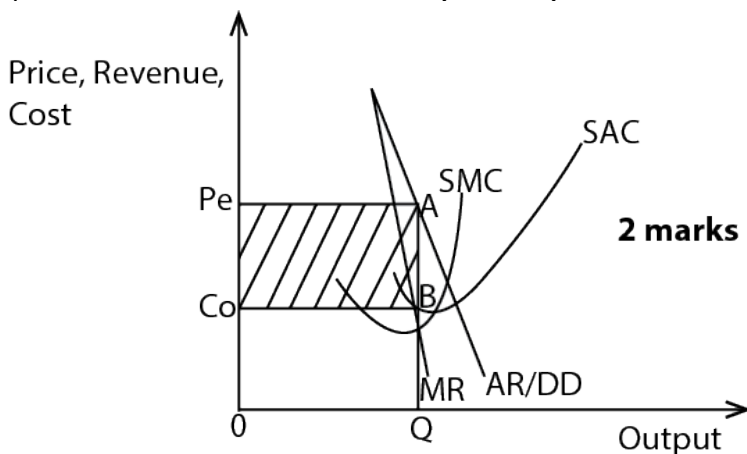
- It assumes constant technology which is unrealistic since technology is ever changing or technological progress occurs
- It assumes a closed economy, yet economies of most LDCs are open economies
- Agricultural modernization is not foreseen by the theory yet this is taking place in most LDCs
- Failure of the theory to visualize labour mobility
- Population growth does not depend on food alone

*Any 8 X 1
= 8 marks*

- The theory is based on subsistence economy yet LDCs' economies are not predominantly subsistence any longer.
- The theory did not foresee the possibility of getting foreign aid or resources from other countries
- There is no mathematical relation as regards growth in food and population
- The theory ignores the deliberate and scientific methods of birth control
- It did not fore see great improvement in transport
- Did not realize that rising living standards can cause a fall in birth rates and population.

6. (a) Profit maximization under monopoly.

Under monopoly, the firm maximizes profits when it is in equilibrium at a point where $MC = MR$. (02 mark)



-
- The monopolist fixes price at point X where the output line meets AR / DD curve i.e. price OP_0 . (01 mark)
- Average revenue (AR) is greater than average cost (AC) at equilibrium output (01 mark)
- A monopolist earns super normal profits represented by the shaded area P_0XYC . (02 mark)

(b) Merits of monopoly in an economy

- Limited duplication of resource wastage
- Economies of scale are enjoyed
- Price discrimination is practiced
- Research and innovations are encouraged
- Public utilities providing cheaper services
- Enables development and therefore growth of infant industries because of patent right accorded to monopolists
- Low operational costs e.g. limited advertising costs
- Sources of revenue to government through taxation
- Abnormal profits are enjoyed
- Enlargement of employment opportunities e.g. state monopolies

*Any 6 X 1
= 6 marks*

Demerits of monopoly

- Excess capacity in some industries – underutilization of resources
- Problem of income inequality
- Under employment and unemployment of labour
- Low quality services or low innovations e.g. UMEME
- Consumer exploitation by way of being charged high prices
- Shortages especially in times of break down
- Exerting pressure on government especially in decision making
- Limited variety or lack of choice for consumers or limited consumers' sovereignty
- Exploitation of workers by way of under paying them.

*Any 6 X 1
= 6 marks*

7. (a) **Perspective planning** refers to long term planning in which long term targets are set in advance for a period of ten or even more years. (04 marks)

(b) Factors limiting economic development planning in LDCs

- Inadequate funds
- Inadequate statistical data or information
- None responsive growing private sector
- Natural calamities which are difficult to control

- Limited political will by the people or lack of public support
- Political instability
- Inefficient implementation machinery or poor conditions
- Interference by politicians or political sabotage
- Over ambitious plans or over forecasting
- Over dependence on foreign aid which is inadequate or inconsistent, uncertain, tied etc.
- Corruption on the part of plan formulators and implementers
- Economic instability or inflation
- Failure to identify priorities
- Limited government commitment
- Limited skilled personnel
- Low levels of infrastructural development
- High population growth rate

*Any 8 X2
= 16 marks*

8 (a) Indirect taxes. These are taxes levied on goods and services.

While

(02 mark)

Direct taxes. These are taxes imposed on income or property of individuals or firms who directly pay them.

(02 mark)

(b) Positive effects of direct taxes

- They raise revenue for the government
- They protect domestic firms and producers from unfair foreign competition through imposing high corporate tax
- They ensure equitable distribution of income e.g. progressive taxes
- They discourage consumption of demerits e.g. the high income tax
- They control demand pull inflation through imposing high direct taxes on incomes of individuals
- They control or regulate monopoly powers in the country through high corporate taxes
- They promote efficient resource allocation
- They stimulate economic growth in an economy.

*Any 8 X1
= 8 marks*

Negative Effects

- They reduce the welfare of the consumers by reducing disposable income
- They cause income inequality
- They cause inflation
- They “kill” the incentive to work
- They re-allocate resources from taxed to non taxed goods
- They can cause unrest, strikes and political instabilities
- Lead to inefficiency of domestic (infant firms which are shielded from external competition
- Increase production costs leading to closure of some firms or reduced producer profits or unemployment due to closure of loss making firms

*Any 8 X1
= 8 marks*

SECTION A

1. (a) (i) What is meant by the term **labour mobility**? (1 mark)
(ii) Suggest any three ways of increasing geographical mobility of labour in your country. (03 marks)
- (b) (i) What is meant by the term **Marginal Propensity to Save**? (01 mark)
(ii) Given the initial national income of a country is shs 22 billion and that the MPS is 40%, calculate the final income. (03 marks)
- (c) (i) Define the term **subsistence production**. (01 mark)
(ii) Give any three demerits of a large subsistence sector in your country. (03 marks)
- (d) (i) What is meant by the term **tied aid**? (01 mark)
(ii) Give any three problems of relying on foreign aid in your country. (03 marks)
- (e) (i) Define the term **under population** (01 mark)
(ii) Mention any three disadvantages of under population in your country. (03 marks)
- (f) (i) What is meant by **monetary policy**? (01 mark)
(ii) Give any three tools of monetary policy in your country. (03 marks)
- (g) (i) Differentiate between **balance of trade** and **terms of trade**. (02 marks)
(ii) Suggest any two ways of improving terms of trade in your country. (02 marks)
- (h) (i) What is **structural inflation**? (01 mark)
(ii) Give any three causes of structural inflation. (03 marks)
- (i) (i) Define the term **economic integration**. (01 mark)
(ii) State any three merits of economic integration. (03 marks)
- (j) (i) What is meant by **public debt management**? (01 mark)
(ii) Give any three objectives of public debt management in your country. (03 marks)

SECTION B: (60 MARKS)

2. (a) Differentiate between **internal economies** and **external economies** of scale. (04marks)
(b) Account for the continued existence of small-scale firms in your country. (16 marks)
3. (a) Distinguish between **balanced growth** and **unbalanced growth strategies**. (04 marks)
(b) Account for the low levels of economic development in your country. (16 marks)
4. (a) What is meant by the term **agricultural modernization**? (04 marks)
(b) Explain the factors limiting agricultural modernization in your country. (16 marks)
5. (a) Distinguish between **voluntary unemployment** and **involuntary unemployment**. (04 marks)
(b) Suggest possible measures of reducing the unemployment problem in your country. (16 marks)
6. (a) How do commercial banks create credit? (*illustrate your answer*) (08 marks)
(b) Explain the factors which limit credit creation by commercial banks in your country. (12 marks)
7. (a) What is meant by the term **vent for surplus theory** as used in international trade. (04 marks)
(b) Assess the role of international trade in the development of your country. (16 marks)
8. (a) Distinguish between **tax evasion** and **tax avoidance**. (04 marks)
(b) Assess the impact of indirect taxes on the economy of your country. (16 marks)

END.

SECTION A

- 1 (a) (i) **“Labour mobility”** refers to the ability / the degree / the ease with which labour moves either

geographically or occupationally **01 mark**

(ii) **Three ways of increasing geographical mobility of labour in my country.**

- Advertise employment opportunities
- Infrastructural development
- Improve the political atmosphere
- Increase wages in areas with low wages
- Improve the health of the worker
- Improve working conditions in other areas
- Fight social prejudices / biases / misconceptions
- Subsidise transport for workers s/ reduce transfer costs to other areas.

*Any 3 x1
= 3 marks*

- (b) (i) **Marginal propensity to save (mps) – the proportion / percentage / fraction / ratio of additional income saved / not consumed or the ratio of change in savings to change in income.**

(01 mark)

(ii) **Final income** = initial income x multiplier, $\frac{1}{mps}$ or $\frac{1}{1 - mps}$

$$= \text{shs. 2 billion} \times \frac{1}{40} \text{ or } \frac{1}{0.4} \text{ or } \frac{1}{1 - 0.6} = 2.5$$

$$K = \frac{1}{mps}$$

$$K = \frac{1}{0.4} = 2.5 \text{ times} \quad \frac{1}{2} \text{ mark}$$

$$Y = IY \times K \text{ (01 mark)} = \text{shs. 22 billion} \times 2.5 \dots\dots\dots \frac{1}{2} \text{ mark}$$

$$22\text{bn} \times 2.5 \text{ (}\frac{1}{2}\text{ mark)} = \text{shs. 55 billion or shs 55,000,000,000}$$

$$= \text{shs 55 billion.} \quad \text{(01 mark)}$$

(c) (i) **Subsistence production** – production for (the producer's) own consumption. (01 mark)

(ii) **Three demerits of a large subsistence sector in my country**

- Low quality of output
- Low economic growth rate due / low quantity of output
- High levels of under – employment and (seasonal) unemployment
- Low tax revenue / low tax base
- Under exploitation of (natural) resources
- Limited specialization and trade
- Limited innovations in the sector

*Any 3 x1
= 3 marks*

(d) (i) **Tied aid** – aid which requires the recipient to abide by conditions set by the donor, for example;
The recipient country is required to purchase goods from the donor country using the grants or funds (1mark)

- Aid given to finance a specific project named by the donor
- The recipient country is required to implement social – economic and political conditions dictated by the donor before the aid can be given.

(ii) **Three problems of relying on foreign aid in my country;**

- Leads to balance of payments problems
- Leads to unemployment
- Promotes brain drain
- Kills local initiatives / promotes laziness
- Leads of economic domination of the economy by foreigners / conditions set are sometimes disastrous
- Leads to cultural erosion / moral decay
- Political domination by foreigners
- Accelerates capital outflow due to debt servicing
- Distorts planning / sometimes aid given is inadequate, uncertain, tied
- It is costly (for example to maintain expicates)
- Leads to underutilization of local resources.

*Any 3 x1
= 3 marks*

- (e) (i) **“Under population”** – refers to a population size that supplies insufficient labour force relative to the existing cooperant factors leading to low (average) output / income per capital. *01 mark*

(ii) **Any three of the disadvantages of under population in my country**

- Limited / small market size
- Limited labour supply / limited skilled labour
- Low output hence low economic growth rate
- Low tax revenue
- Low level of innovations and inventions
- Underutilization of (natural) resources
- High cost of social – capital per capita
- Low levels of investment

*Any 3 x1
= 3 marks*

- (f) (i) **Monetary policy** – refers to the deliberate attempt by the government through the central bank to regulate the amount of money in circulation so as to attain objectives of development such as price stability, stable economic growth rates, full employment and balance of payments stability / equilibrium. *(01 mark)*

(ii) **Any three tools of monetary policy in my country**

- The bank rate
- Open market operation
- (minimum) legal reserve requirement
- Rationing of credit
- Selective credit control
- Special deposit(s) / supplementary legal reserve requirements
- Moral suasion
- Currency reform
- Variable reserve requirement (cash ratio, liquidity ratio)
- Margin requirement

*Any 3 x1
= 3 marks*

- (g) (i) **Balance of trade** – is the difference between the value of visible exports and the value of visible imports.

01 mark

while

Terms of trade are the ratio of the price index of exports to the price index of imports. **Or;**

The rate at which a country's exports are exchanged for imports
or;

The relationship between the price index of exports and the price index of imports. **(01 mark)**

(ii) Suggest two ways of improving terms of trade in my country include;

- Process products for exports
- Manufacture products for exports
- improve quality of exports
- Adopt Import substitution
- Strengthen regional cooperation / diversification of export markets
- Strengthening commodity agreements
- Encourage importation from cheaper sources low cost countries
- Diversify exports / export a variety
- Negotiate for removal of trade barriers in export markets.

*Any 2 x1
= 2 marks*

(h) (i) Structural inflation – refers to a persistent increase in the general / average price level due to supply rigidities and structural rigidities in the sectors of the economy (leading) to decline in the supply of essential goods or inflation caused by supply rigidities and structural bottlenecks. (01 mark)

(ii) Any three cause of structural inflation;

- Break down of (key) industry
- Infrastructural break down
- Political instability
- Natural hazards / un favourable natural factors
- Hoarding of goods (by traders)
- Scarcity of inputs / scarcity of raw materials / natural resources
- Foreign exchange shortage

*Any 3 x1
= 3 marks*

- (i) (i) **Economic integration** –is the coming together of two or more countries in a given region for the sake of material (economic) benefit of all member states or

The merging to various degrees the economies and economic policies of two or more countries in a given region for the mutual benefit of member countries. (01 mark)

(ii) Three merits of economic integration

- Trade creation effect
- Leads to specialization and its advantages
- Stimulates industrial development
- Avoids duplication of resources or goods
- Leads to low average cost of joint research / encourages joint research / leads to sharing costs of research
- Attracts foreign resources
- Increased resources utilization hence avoiding wastage
- May lead to use of one currency hence facilitation of trade
- Improves the bargaining position / power of the region internationally
- Creates political cooperation and understanding among member states
- Creation of employment opportunities
- Production of variety of goods hence widening consumer choices
- Leads to increased economic growth
- Economies of scale are enjoyed by firms
- Creation of a wide market
- Joint provision of infrastructure
- Production of quality goods due to competition

*Any 3 x1
= 3 marks*

- (j) (i) **Public debt management** - refers to the process of acquiring, utilizing, servicing and repayment of debts by the central authority or local authority or public corporation. (01 mark)

(ii) **Any three objectives of public debt management in my country.**

- To maintain price stability
- To influence income distribution / control income inequality
- To ensure proper utilization of funds / minimize or control corruption
- To influence the rate of interest
- To reduce the debt burden / minimize the cost of the public debt.
- To mobilize financial resources / to raise government revenue

*Any 3 x1
= 3 marks*

SECTION B

- 2 (a) **Internal economies of scale** are advantages enjoyed by a firm as it expands due to favourable conditions within the firm.

02 marks

While

External economies of scale are advantages enjoyed by a firm due to the expansion of the industry or due to favourable conditions created for the firm by the industry.

02 marks

(b) **An account for the continued existence of small scale firms in my country**

- Poor infrastructures
- Limited capital for expansion / they are cheap to start
- Fear of diseconomies of scale
- Limited labour skills
- Fear of increased taxes
- Limited supply of raw materials
- Limited market size
- Poor techniques of production
- Choice / objective of the entrepreneur
- Market requiring personal touch / personal service
- Limited entrepreneurial ability
- Poor land tenure
- They are used as pilot projects or research purposes
- They are beginner or new firms
- They are flexible
- They are easy to manage and control

*Any 8 x2
= 16 marks*

- 3 (a) **Balanced growth (strategy)** (according to Ragner Nurkes) advocates for harmonious and simultaneous investment in all the sectors of the economy so that they complement each other and grow more or less at the same pace. *02 marks*

While

Unbalanced growth (strategy) – (as propounded by albert .O. Hirschman) advocates for investment in one or few key sectors of the economy that would ultimately lead to growth of other sectors through linkages. *02 marks*

(b) **Account for the low level of economic development in my country**

- Low level of technology
- Limited capital stock
- Limited labour skills / brain drain / high illiteracy rates
- Unfavourable terms of trade
- Corruption / low levels of accountability
- High rates of capital outflow (profit repatriation)
- Political unrest
- Poor attitude towards work / conservatism
- Limited market (both at home and abroad)
- Poor infrastructure
- Dominance of subsistence sector
- Dependence on agriculture
- High debt burden and problem of debt servicing
- Limited quantity, quality and variety of strategic natural resources
- Low entrepreneurial skills
- Dependence on foreign aid
- Price and exchange rate instabilities
- High population growth rates
- Poor land tenure system
- Poor investment climate / poor government policy of investment
- Unfortunate structural adjustment programmes

<p><i>Any 8 x2</i> <i>= 16 marks</i></p>
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- 4 (a) **Agricultural modernization**– refers to the changing/ transforming of the agriculture sector from subsistence production to commercialized high yielding sector. *04 marks*

Or

The policy of increasing the output and incomes of the agriculture sector through measures such as mechanization / use of better production techniques, use of improved breeds etc.

(b) **Factors limiting agricultural modernization in my country are:**

- Limited supply of capital / low incomes / low savings
- Limited supply of skilled labour / illiteracy of the farmers
- Poor techniques of production
- Limited market both at home and abroad
- Conservatism (of the farmers)
- Natural hazards / unfavourable natural factors
- Unfavourable political atmosphere
- Corruption / low levels of accountability
- Low prices of the products / fluctuations in prices of agricultural products
- Poor infrastructures
- Poor land tenure system
- Poor entrepreneurship
- Unfavourable topography

<i>Any 8 x2 = 16 marks</i>

- 5 (a) **Voluntary unemployment** – a situation in which people who are able are not Willing to work (at the ongoing wage rates) yet employment opportunities exist or one in which labour is not willing to work (at the ongoing wage rate) yet there are jobs. *02 marks*

While

Involuntary unemployment – a situation in which people who are able and willing to work (at the current wage rate) are unable to find jobs **or;**

One in which labour is willing to work but is unable to find work at the ongoing wage rate. *02 marks*

(b) **The possible measures of reducing the unemployment problems in my country are:-**

- Control population growth rate
- Train labour / education reforms / manpower planning
- Develop infrastructures
- Diversification of the economy
- Further liberalization of the economy
- Further privatization
- Reform the land tenure system
- Improve the political atmosphere
- Encourage use of appropriate technology
- Improve investment climate / provide tax incentives to investors
- Widen market (for example by joining economic integration)
- Advertise jobs
- Modernize agriculture
- Provide (social) programmes for persons with disabilities
- Export surplus labour to other countries
- Promote industrialization
- Provide credit facilities (start up capital)

*Any 8 x2
= 16 marks*

6 (a) Illustrated) description of how commercial banks create credit;

- Banks create credit by receiving deposits and lending part of it. **01 mark**
- Initial deposit received by one commercial bank. **01 mark**
- Cash ratio given **01 mark**
- Process of receipt and lending (descriptive / table. **02marks**
- Process continues till amount to be lent is negligible. **01 mark**
- Total amount created = I.D x bank multiplier. **01 mark**
- Computed figure given / final answer **01 mark**

Or

- By receiving deposits and lending part of it
- Receiving of deposits by a commercial bank, for example bank A receives shs. 100, 000 as deposited. **01 mark**
- Keeping of a percentage of the deposit as cash ratio for example bank A keeping 20% or shs. 20,000 as reserves. **01 mark**
- Giving out a percentage of the deposit in the bank to borrowers (for example, loans = deposit – cash ratio; that is loans = shs. 100,000 – shs. 20,000, shs. 80,000. **01 mark**
- Receiving of loans by bank A as new deposit in another bank – say, bank B. for example shs. 80,000 becomes new deposit in bank B. **01 mark**
- A percentage of the deposit in bank B is kept as cash reserve for example 20% of shs. 80,000 or shs. 16,000 is kept as cash ration **01 mark**
- The process goes on till the initial deposit defuses in the system
- At the end of the process final deposit is equal to initial deposit x $\frac{1}{CR}$ or multiplier
- That is final deposit = shs. 100,000 x $\frac{1}{20}$ = shs. 500,000. **01 mark**

(b) **The factors which limit credit creation by commercial banks in my country are:**

- Lack of collateral security
- Few credit worthy borrowers
- High cash ratio
- High interest rate (on loans)
- Corruption by bank officials (lend only to those who bribe them, limit the volume of deposits or lending)
- High liquidity preference
- Unpopularity of loans
- Few and urban based commercial banks / poorly developed commercial banks
- Low income level of the population

- Low savings or low deposits
- Restrictive / contractionary monetary policy by the central bank / government
- Poor political atmosphere
- Economic uncertainty in my country
- Low level of investment
- Large subsistence sector

*Any 6 x2
= 12 marks*

7 (a) **“Vent for surplus theory”** as used in international trade – states that international trade provides opportunity for countries to utilize formerly idle resources to produce output for the export markets. *02 marks*

(b) **Assessing the role of international trade in the development of my country.**

(i) **The contribution of international trade to the development of my country. (positive)**

- Enables the country to get what it does not produce
- Provides a variety of goods hence widening consumer choices
- Efficiency of domestic firms due to competition
- Enables the country to dispose off surplus output
- Promotes specialization and its benefits
- Enables the country to acquire new ideas and values
- Promotes international friendship and cooperation
- Leads to utilization of resources hence avoiding wastage
- Promotes technological transfer
- Enables my country to acquire skilled labour from other countries
- Promotes capital inflow
- Provides revenue to government
- Increased output hence economic growth
- Provision of employment opportunities
- Increased quality of output due to competition
- Promotes infrastructural development
- Promotes entrepreneurship
- Enables countries to get supplies in times of emergencies
- Supplements domestic production

*Any 10 x1
= 10 marks*

(ii) **The contribution of international trade to the low level of development of my country (negative role) of international trade in the development of my country.**

- Exhaustion of non – renewable resources due to over exploitation
- Leads to cultural erosion
- Collapse of domestic firms due to stiff competition
- Lead to imported inflation
- Leads to poor terms of trade
- Leads to balance of payments problems / capital outflows
- Leads to dumping
- Promotes independence / reduces self sufficiency
- Leads to importation of undesirable products
- Leads to unemployment
- Retards the development of local skills

*Any 10 x1
= 10 marks*

8 (a) **Tax evasion** – is the refusal by the tax payer to pay a tax assessed /imposed on him (it is illegal). **02 marks** While

Tax avoidance – refers to the tax payers exploitation of the loopholes in the tax law in order to pay little or not at all, it is legal.

(02 marks)

(b) **An assessment of the impact of indirect taxes on the economy of my country;**

(i) **Positive impact**

- Protect domestic firms / industries
- Promote effort of the citizens / people in the economy
- Discourage consumption of demerit / harmful goods
- Influence allocation of resources /influences investment
- Improve balance of payments position
- Provide revenue to government.

*Any 5 x2
= 10 marks*

(ii) **Negative impact of indirect taxes in the economy;**

- Undermine volume and benefits of trade
- Tend to be regressive / promote income inequality
- Lead to reduced consumption hence reduced consumer welfare
- Promote trade malpractices such as smuggling
- Tend to be inflationary / lead to cost push inflation

- Lead to resentment of government / lead to traders unrest
- Discourages investment
- Lead to increased cost of production
- Breed inefficiency in the protected firms
- Lead to misallocation of resources

*Any 6 x1
= 6marks*

SECTION A

1. (a) (i) If the price of commodity X falls from Ug shs. 2,000,000 to Ug sh 1600,000 per unit and the quantity demanded of commodity Y increases from 40,000 to 60,000 units. Calculate the cross elasticity of demand
(3 marks)
- (ii) State the relationship between commodities X and Y
(1 mark)
- (b) (i) Define the term **occupational mobility of labour**
(1 mark)
- (ii) Give any **three** factors that limit occupational mobility of labour in your country
(3 marks)
- (c) (i) Distinguish between **injections** and **leakages** in an open economy
(2 marks)
- (ii) Give **two** examples of leakages in your country
(2 marks)
- (d) Mention any **four** factors which influence the rate of savings in your country
(4 marks)
- (e) State any **four** features of the industrial sector in your country
(4 marks)
- (f) (i) Distinguish between **managed exchange rate** and **floating exchange rate**
(2 marks)
- (ii) State any **two** advantages of adopting a floating exchange rate
(2 marks)
- (g) (i) Distinguish between a **money market** and **capital market**
(2 marks)
- (ii) Give **two** characteristics of money markets in developing countries
(2 marks)
- (h) (i) Define an **inflationary gap**
(1 mark)
- (ii) How can an inflationary gap be closed in an economy
- (i) (i) Distinguish between **partial planning** and **comprehensive**
(2 marks)
- (ii) Outline any **two** constraints to economic development planning in your country
(2 marks)
- (j) (i) Distinguish between the **impact** and the **incidence** of a tax
(2 marks)
- (ii) Mention any **two** effects of taxation in your country
(2 marks)

SECTION B

2. (a) Describe the features of oligopolistic markets in your country
(10 marks)
(b) Explain the merits and demerits of oligopolistic markets
in your country (10 marks)
3. (a) Explain the causes of uneven distribution of income in
your country (10 marks)
(b) Explain the measures that have been adopted to minimize
uneven distribution of income in your country (10 marks)
4. (a) In what ways is your country economically dependent
(10 marks)
(b) Examine the implications of such economic dependence
(10 marks)
5. Assess the effects of multi-national corporations in your country
(20 marks)
6. (a) Account for the existence of unfavourable terms of trade
in your country (10 marks)
(b) Suggest measures that should be taken to correct
unfavourable terms of trade in your country (10 marks)
7. (a) What is meant by **optimum population** (4 marks)
(b) Examine the consequences of a high population growth
rate in your country (16 marks)
8. (a) Differentiate between **privatisation** and **nationalisation**
of economic enterprises (4 marks)
(b) Assess the impact of privatisation of public enterprises in
your country (16 marks)

END

SECTION A (20 MARKS)

1. (a) (i) Cross elasticity of; (01 mark)

$$\text{demand} = \frac{\text{proportionate } \Delta \text{ in quantity of } y \text{ demanded}}{\text{proportionate } \Delta \text{ in price pf } x}$$

$$= \frac{60,000 - 40,000}{40,000} \quad (01 \text{ mark})$$

$$= \frac{1,600,000 - 2,000,000}{2,000,000}$$

$$= \frac{1}{2} \div \frac{-1}{5}$$

$$= -2.5 \quad (01 \text{ mark})$$

- (ii) The relationship between commodities X and Y is that they are complements. (01 mark)

- (b) (i) **Occupational mobility** labour is the ease with which labour moves from one job to another. (01 mark)

- (ii) **Factors that limit occupational mobility of labour in Uganda include:-**

- Limited information about alternative jobs
- Better working conditions in current jobs
- Better wages in current jobs
- High prospects of promotion in current jobs
- High discrimination in (the) labour market
- Limited skills for alternative jobs / high degree of specialization
- Low status of alternative jobs
- Social restrictions
- High cost of training for alternative jobs
- Long period of training required for alternative jobs
- Limited natural ability
- Stringent requirements for alternative occupations
- Barriers by trade union and professional bodies
- Old age as some workers are too old to change jobs.

Any 3 X 1 =
3 marks

(c) (i) **Injections** are elements that add to the circular flow of national Income (01 mark)

While Leakages are elements that reduce the circular flow of national income. (01 mark)

(ii) **Two examples of leakages in my country (Uganda) are;**

- Savings
- Taxation
- Imports
- Capital outflow

*Any 2 X 1 =
2 marks*

(d) **Four factors influencing the level of savings in Uganda;**

- The level of income
- The rate of inflation or the degree of price stability or the price level
- Government policy on savings
- The interest rate
- Spending habits
- The level of development of commercial banks and other financial infrastructure institutions
- The population growth rate
- The degree of monetization or commercialization of the economy
- The degree of accountability (in the financial sector)
- The level of taxation and subsidization
- The existing stock of wealth
- The marginal propensity to save or the MPC

*Any 4 X 1 =
4 marks*

(e) **Mention four features of the industrial sector in Uganda**

- Mainly dominated by small scale industries
- Mainly comprise of processing industries
- Most of the firms in the sector are privately owned
- The sector mainly produces low quality manufactured goods
- Many of the industries are agro – based
- Durable consumer goods industries are mostly assembling plants

- Produce mainly consumer goods
- Mainly import substituting industries
- High imported raw materials and intermediate product content
- Limited linkages with other sectors of the economy
- Mainly produce at excess capacity
- Many firms use unskilled and semi – skilled labour

*Any 4 X 1 =
4 marks*

(f) (i) **Managed exchange rate** is one in which the forces of demand and supply determines the rate at which the local currency exchanges for the other currencies but within limits set by the monetary authority. **(01 mark)** **Where as Floating exchange rate** is one in which the rate at which the local currency exchanges for other currencies is (purely) determined by market forces of demand and supply. **(01 mark)**

(ii) **Two advantages of adopting a floating exchange rate in my country are;**

- Provides automatic mechanism for correcting BOP disequilibrium
- Preserves the autonomy of domestic monetary policy
- Saves the country the burden of feeding large official reserves
- It is cheap to administer
- Gives the most realistic value of the local currency vis-à-vis other currencies
- Discourages the operation of parallel forex markets
- It encourages or attracts investment

*Any 2 X 1 =
2 marks*

(g) (i) **Money market** is one in which short term financial assets or securities are exchanged. **(01 mark)**

(ii) **Stating two features of money markets in developing countries**

- They are mainly urban based
- They charge mainly high interest rates
- Mainly small scale
- There are few participants in the markets
- They deal in limited variety of financial assets.

*Any 2 X 1 =
2 marks*

(h) (i) **An inflationary gap** is a situation in which aggregate demand exceeds aggregate supply at full employment level of national income. **(01 mark)**

(ii) Two constraints to economic development planning in my country

- Inadequate funds
- Limited necessary statistical data or limited information
- Non – responsive growing private sector
- Limited will by the people or conservation
- Political instability
- Inefficient planning machinery
- Interference by politicians or government
- Ambitious planning i.e. planning for beyond means
- Corruption of the plan formulators and implementers
- Price instability
- Dependence on foreign aid which is inadequate, inconsistent, uncertain, tied
- Natural calamities.

*Any 2 X 1 =
2 marks*

- (j) (i) **Impact of a tax** refers to the person or firm on whom a tax is officially levied or the first resting place of tax or the immediate effect of a tax on a person on whom it is levied. **(01 mark)**

while

Incidence of a tax or refers to the person who ultimately bears the (money) burden of a tax. It refers to the final resting place of a tax. **(01 mark)**

(ii) Two effects of taxation in my country include;

- Raises revenue for government
- Promotes fair income distribution
- Improves B.O.P position
- Controls inflation
- Influences proper resource allocation
- Discourages production and or consumption of demerit goods
- Stimulates economic growth

*Any 2 X 1 =
2 marks*

- Protects domestic firms
- Discourages investment
- Reduces savings
- Discourages effort and initiative
- Encourages malpractices e.g. smuggling
- Indirect taxes fuel inflation
- Diverts resources from highly taxed activity to sometimes non – productive ventures or leads to resource misallocation
- Leads to resentment hence loss of popularity by government
- Reduces volume and thus benefits of trade
- Reduces consumption hence reduced consumer welfare

SECTION B

2. (a) **Features of oligopolistic markets in my country are the following;**

- Few firms and many buyers
- Production of differentiated goods and services
- Limited freedom of entry and exit
- Different sizes of firms
- Close interdependence between firms
- Intensive sales promotional activities or non-price competition e.g. advertising, after sales services etc.
- High degree of uncertainty
- Price rigidity
- No unique pattern of pricing e.g. price leadership and collusion
- Profit maximization is the main motive of production

*Any 10 X 1 =
10 marks*

(b) **Merits and demerits of oligopolistic markets in my country are the following;**

(i) **Merits**

- Consumers gain from non – price competition
- Low prices to consumers
- Eases consumer budgeting due to price stability
- Widens consumer choices due to price stability
- Widens consumer choices due to production of variety of goods
- Production of quality goods due to competition

- Provide employment opportunities
- Develop infrastructure
- Contribute to economic growth by increasing output
- Contribute revenue to government
- Increased innovations due to competition
- Enable firms to receive abnormal profits.

<i>Any 5 X 1 = 5 marks</i>

(ii) Demerits of oligopolistic markets in my country include;

- Distorts consumer choices
- Exploitation of consumers through over – charging due to collusion
- High costs of production due to intensive sales promotional activities or high prices of final products due to high cost of competition
- Duplication hence wastage of resources
- Worsens income inequality in the economy
- Leads to collapse of small firms due to competition
- Limited entrepreneurial development or limited investment
- Industries with large firms exert pressure on government
- Underutilization of resources due to operation at excess capacity

3. (a) The following are the causes of uneven income distribution in my country.

- Variation in natural resources distribution
- Differences in the level of education and skills
- Differences in the quantity of output produced
- Differences in family or social backgrounds
- Differences in talents and other natural abilities
- Differences in experience or seniority or responsibility
- Differences in elasticity of labour supply
- Differences in trade union ability to bargain
- Variation in employers ability to pay
- Discrimination in the (labour) market on the basis of gender, race etc.
- Variation in accessibility to developed infrastructures

- Differences in the nature of occupations and risks
- Differences in the ability of individuals to bargain for incomes
- Differences in the number of hours worked
- Differences in the cost of living
- Differences in access to credit or contracts
- Differences in the degree(s) of political climate or state of security
- Non – matching wage policy by the employers
- Political influence in the allocation of resources in favour of certain regions or sectors;

*Any 10 X 1 =
10 marks*

(b) Measures that have been adopted to minimize uneven distribution of income in my country.

- Education reforms
- Land tenure reforms
- Progressive taxation
- Improved infrastructure
- Liberalized the economy
- Decentralized government
- Controlled population growth rates
- Modernized agriculture
- Diversified the economy
- Raised wages of low income groups or minimum wage deputations
- Improvement of the investment climate
- Encouraged provision of investment credit or provision of affordable loans
- Empowerment of disadvantaged groups
- Increased government expenditure to develop disadvantage regions or groups or subsidization of the poor
- Improved political climate
- Encouraged development of small scale enterprise

*Any 10 X 1 =
10 marks*

4. (a) Ways in which my country is economically dependent are:

- Sectoral dependence – dependent on agriculture
- Trade dependence – exportation to few countries, over reliance on imports.
- Direct dependence – dependent on foreign decisions
- External resource dependence – dependent on foreign skills – dependent on foreign capital – dependent on foreign technology.

*Any 4 X 2 =
8 marks*

(b) Implications of my country's economy dependence include;

- Balance of payments problems
- Discourages local initiatives or encourages laziness
- Low volume of imports due to low export earnings
- The economy is subjected to inappropriate and undesirable decisions
- Poor terms of trade
- Fluctuations of incomes
- Fluctuation of prices
- Accelerates capital outflow or debt burden
- Underutilization of natural resources
- Unemployment and under employment
- Exacerbates political domination of my country by foreigners
- Led to economic domination of my country by foreigners
- Leads to social cultural domination or cultural erosion

*Any 6 X 2 =
12 marks*

5. The impact of multi – national corporations in Uganda;

Positive impact

- Closing the savings – investment gap
- Close the foreign exchange gap
- Source of government revenue
- Promote technological transfer / fills the technological gap
- Create employment opportunities
- Help in skills development

*Any 10 X 1 =
10 marks*

- Encourage infrastructural development
- Widen consumer choices due to production of variety of goods
- Efficiency of firms encouraged (due to competition with local firms)
- Promote international cooperation hence increased trade, aid, etc.
- Fill the manpower gap
- Improved utilization of natural resources
- Encourage inventions and innovations
- Produce quality goods
- Increased output hence economic growth
- Facilitate the industrialization process

(ii) Negative impact of multinational cooperation's in my country include;

*Any 10 X 1 =
10 marks*

- Capital flight
- Bop problem
- Worsening of economic dependence problem
- Unemployment due to use of capital intensive technology
- Excessive concessions given sometimes exceed real or not gain
- Over exploitation of natural resources
- Sectoral or regional imbalance in development
- Rural – urban migration
- Local firms are subdued or outcompeted
- Interference in political decisions
- Erosion of cultural and moral values
- Worsen income inequality
- Social cost increase

6. (a) Reasons for unfavourable T.O.T in my country

- Falling prices of exports
- Importation of expensive manufactured capital and consumer goods
- Increasing substitution of exports with synthetics produced by MDCs

- Exportation of semi – processed agricultural and mineral products
- Market flooding of new agriculture products leading to fall in export prices.
- Protectionist policies of MDCs
- Weak bargaining power of LDCs
- Invention of raw material saving techniques
- Low income elasticity of demand for exports
- Low quality exports
- Unfavourable exchange rates
- Rising prices of imports.

*Any 10 X 1 =
10 marks*

(b) Measures to improve terms of trade of my country

Process primary exports to add value

- Import substitution
- Diversify markets or joining or strengthening regional cooperation
- Strengthening commodity agreements
- Improve quality of exports
- Encourage importation from cheaper sources
- Diversify products for exports
- Stabilization of foreign exchange rates
- Negotiate for removal of trade barriers in export markets.

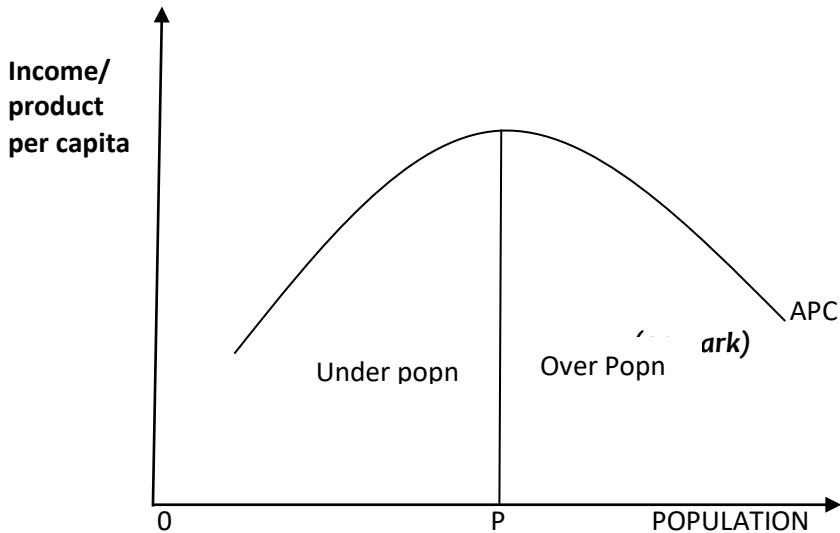
*Any 5 X 2 =
10 marks*

7. (a) Meaning of **the term optimum population**: a population size that provides labour force that is sufficient to combine with existing co-operant factors leading to maximum output per worker or highest per capital income.

(02 marks)

Hence a certain number of people is required to optimally utilize the available resources, below it (under population), there is underutilization of resources; while above it (over population) resources are over utilized.

(01 mark)



OP is optimum population

Implications of a high population growth rate in my country;

(i) Positive implications

- High market potential
- High potential for labour force
- An incentive or potential for massive future investment
- High tax potential
- Initiates effort to work harder to sustain the predominant or dependent population
- Government is awakened to its responsibility of providing necessary infrastructure and this leads to increase in output
- The young are usually innovative – room for potential inventions
- High potential for increased resource utilization
- Reducing per capital social overhead costs.

*Any 6 X 1 =
6 marks*

(ii) **Negative economic implications on the other hand include;**

- Low labour productivity
- High dependence burden or low savings
- Unemployment and under employment
- Limited domestic market or low effective demand
- External resource dependence e.g. on foreign man power
- Bop problems due to high import requirements to supplement domestic supply
- Available infrastructure is over strained
- Effective planning for the population becomes difficult
- High government expenditure on provision of social services
- High social costs in form of pollution, congestion etc
- Results into brain drain
- High rates of rural – urban migration and the negative implications
- Causes or perpetuates income inequality
- Quick depletion of resources due to over exploitation.

*Any 10 X 1 =
10 marks*

8. (a) **Privatization** is the transfer of ownership of public assets or state enterprises to individuals or private investors.

(02 marks)

While

Nationalization refers to the taking over by the state of ownership of enterprises formerly privately owned.

(02 marks)

(b) **Impact of privatization in my country**

(i) Positive impact include;

- Increased output hence economic growth
- Increased government revenue
- Widened consumer choices due to production of variety
- Reduced expenditure by government
- Reduces dependence on imports due to increased local production
- Reduced corruption in the enterprises
- Reduced bureaucratic red – tape in the enterprises
- Increased investment by foreigners who buy the enterprises

- Increased quality of output
- Increased innovations and inventions
- Improved relations between my country and the international community, especially donors
- Increased job creation in the enterprises (in the long run)
- Improved efficiency in resource allocation
- Improved skills
- Reduced inflation rate

*Any 10 X 1 =
10 marks*

(ii) Negative impact of privatization in my country include;

- Increased consumer exploitation
- Unemployment in the short run (due to retrenchment and substitution of labour with machines)
- Increased foreign control of the economy
- Irrational exploitation of resources leading to environmental degradation
- Reduced provision of essential or vital or some goods
- Increased price fluctuations
- Profit repatriation due to investment being in the hands of foreigners.
- Resentment of government
- Losses are incurred due to under valuation, high costs of advertising the enterprises etc.

*Any 6 X 1 =
6 marks*

SECTION A

1. (a) (i) What is a **laissez – faire economy**? (01 mark)
 (ii) State any three demerits of a Laissez – faire economy (03marks)
- (b) (i) Distinguish between an **operating cost** and an **overhead cost** (02marks)
 (ii) Give two overhead costs in an economy (02marks)
- (c) (i) Define **aggregate demand** (02marks)
 (ii) Outline any three components of aggregate demand in an open economy. (02marks)
- (e) (i) Distinguish between **optimum population** and **overpopulation** (02marks)
 (ii) Give two demerits of overpopulation (02marks)
- (f) (i) Define the term **foreign exchange rate** control as used in economics (02marks)
 (ii) Mention three objectives of foreign exchange rate control in an economy (02marks)
- (g) (i) State the law of **comparative cost advantage** (02marks)
 (ii) Assumption of the law of comparative cost advantage (02marks)
- (h) (i) What is meant by **currency depreciation** (1mark)
 (ii) Give any three effects of currency depreciation in an economy (03marks)
- (i) (i) Define a **funded debt** (1mark)
 (ii) State any three reasons for raising money through public debt (3marks)
- (j) Give four ways by which public enterprises are privatized (4marks)

SECTION B

- 2 (a) Explain the role of price mechanism in an economy (8marks)
 (b) Examine the implications of price mechanism in an economy (12marks)
- 3 (a) Distinguish between **disposable income** and **percapita** (4marks)

- (b) Explain the limitations of using per capital income to compare standards of living between countries (16 marks)
- 4 (a) Distinguish between **bi – lateral aid** and **multi – lateral aid** (4marks)
- (b) Assess the impact of foreign aid on the development of an economy (16marks)
- 5 (a) Explain the role of agriculture in the development of an economy. (12marks)
- (b) Suggest measures that should be taken to improve the agricultural sector (8marks)
- 6 (a) Discuss the causes of unemployment in an economy (10marks)
- (b) Explain the effects of unemployment in an economy (10marks)
- 7 (a) Explain the benefits of regional economic integration (10marks)
- (b) Examine the factors that have undermined the achievement of regional economic integration indeveloping countries. (10marks)
- 8 (a) What is meant by **fiscal policy** (2marks)
- (b) Explain the objectives of fiscal policy (18marks)

- 1 (a) (i) **A laissez – faire economy** refers to an economy where allocation of resources is done by the forces of demand and supply without government interference.

(ii) Two demerits of a Laissez – faire economy / deflation

- It leads to economic instabilities / inflation
- Leads to emergence of monopoly
- Leads to income and wealth inequalities
- There is consumer exploitation due to consumer ignorance
- Consumer choices are distorted by persuasive advertising
- Divergence between social costs and private benefits
- Liability to cope with rapid structural changes
- Inability to allocate resources for public goods
- It leads to unemployment
- It leads to duplication
- Resource misallocation

*Any 2 X 1 =
2 marks*

- (b) (i) **An operating cost** refers to a cost / expense of a firm that varies with the level of output.

Where as

An overhead cost is an expense met by a firm regardless of the level of output produced. **01 mark**

(ii) Two overhead costs in an economy

- Salaries of the top management
- Cost on depreciation of machinery
- Rent
- Interest on loans
- Cost of machinery
- Insurance premiums

*Any 2 X 1 =
2 marks*

(c) (i) **Aggregate demand** is the total demand for goods and services in an economy at a given period of time. **01 mark**

(ii) **Three components of aggregate demand in an open economy.**

- Consumption expenditure
- Government expenditure
- Investment expenditure
- Expenditure on exports
- Expenditure on imports

*Any 4 × 1
= 4 marks*

(d) (i) **Optimum population** is the population size that provides the labour force sufficient to combine with the existing co-operant factors leading to maximum per capital income / average product per worker or output per worker. **01 mark**

Where as

Over population is the population size where there are more people than the resources can sustain resulting in a fall in average product as the population increases

Or

Over population is a population size whereas the output per person decreases as the population increases. **01 mark**

(ii) **Two demerits of over population**

- High levels of crime
- High dependence burden
- Discourages investments or reduced savings
- Leads to B.O.P deficits
- Makes planning difficult
- Leads to income inequality
- Leads to unemployment
- Leads to resource over exploitation
- There is low labour productivity
- Leads to rural urban migration
- Leads to inflation
- Leads to low per capital income or low standard of living

*Any 2 × 1
= 2 marks*

- Leads to increased government expenditure on social services
- Leads to brain drain
- Pressure on land or land conflicts
- Pressure on infrastructure
- Leads to food shortages.

(e) (i) **Foreign exchange rate control** refers to where the state / monetary authority regulates the rate at which the local currency exchanges for foreign currencies.

01 mark

(ii) **Three objectives of foreign exchange rate control**

- To correct unfavourable B.O.P
- To stabilize exchange rates / dimension
- To achieve price stability or control inflation
- To encourage investment
- To protect domestic industries
- To control the importation and consumption of undesirable goods
- To raise revenue for government
- To check capital flight / control capital outflow
- To ensure availability of foreign exchange to facilitate trade
- To acquire foreign exchange for servicing the country's external debt
- To discourage speculation in forex market
- To encourage long-term planning.

*Any 3 × 1
= 3 marks*

(f) (i) **The law of comparative cost advantage states** that given two countries and two commodities with a given amount of resources one country can produce one commodity more cheaply or at a least opportunity cost than the other country.

OR

Given two countries and two commodities with given amount of resources a country should specialize in producing a commodity where it has the least opportunity cost then the other.

1 mark

(ii) Assumption of the law of comparative cost advantage

- Two countries
- Two commodities
- Constant technology
- Barter trade system exists
- Absence of trade restrictions / existence of free trade
- Perfect mobility of factors internally immobility externally
- No transport costs
- Demand is elastic
- Constant comparative advantages in both countries
- Constant returns to scale or no diminishing returns or opportunity cost ratio
- Homogeneity of factors of production
- Full employment of resources in both countries
- Tastes are similar in both countries

*Any 3 × 1
= 3 marks*

(g) (i) **Currency depreciation** refers to the fall or decrease in the value of local currency in relation to foreign currencies under the flexible exchange system. **01 mark**

Or

Currency depreciation refers to the fall in the value of the local currency in relation to foreign currencies due to the interplay of forces of demand and supply in the foreign exchange market.

01 mark

(ii) Three effects of currency depreciation in an economy

- Discourages investment
- Leads to unfavourable terms of trade
- Projected planning is made difficult
- Leads to loss of confidence in the local currency or loss of government popularity
- Increases the volume of exports or reduces B.O.P problem
- Increases foreign capital inflow
- It encourages specialization
- Worsens the external debt burden
- Leads to inflation
- Exporters gain high local currency revenue

*Any 3 × 1
= 3 marks*

- (h) (i) **A funded debt** is a long-term debt for which there is no redemption date or date of repayment but the borrower keeps on paying annual interest on the principal.

(ii) Three reasons for raising money through public debt

- To ease the burden of taxation on citizens in the short run
- To raise funds currently needed for public expenditure
- Financing B.O.P deficit in the short run or filling the forex gap
- To supplement tax revenues
- To control inflation by reducing amount of money in people's hands
- To fill the savings – investment gap
- To sustain market by leaving citizens with adequate disposable incomes
- To achieve and maintain a given level of employment
- To handle the effects of calamities or disasters
- To help repay interest and eventually the principal sum borrowed.

*Any 3 × 1
= 3 marks*

(i) Four ways by which public enterprises are privatized

- Divestiture
- Partial sale/privatisation
- Joint ventures or recapitalization
- Mortgaging or leasing / concessions
- Contracting
- De – nationalization

*Any 4 × 1
= 4 marks*

SECTION B

2. (a) The role of price mechanism

- It ensures the allocation of resources
- It guides on what to produce
- It provides an incentive for economic growth in cases where high prices encourage high production
- It provides an automatic adjustment between demand and supply or how much to produce
- It determines the type of technology to be used in production or how to produce

*Any 8 × 1
= 8 marks*

- Ensures production of better quality products because of competition
- Determines income distribution
- It guides consumers when making choice
- It determines where to produce or location of production unit
- Determines when to produce i.e. when demand is high
- Determines the distribution of goods and services i.e. for whom to produce

(b) Implications of price mechanism

Positive implications

<i>Any 6 × 1 = 6 marks</i>

- It leads to increased employment opportunities
- Encourages arbitrage which benefits producers
- It encourages competition which leads to production of better quality goods and services
- It promotes incentive for hard work leading to increased production
- It reduces the costs of administration because of limited government control
- It avails a wide variety of goods and services
- It decentralizes economic powers i.e. individual households make their own decisions
- The profit motive encourages research, inventions and innovations
- It leads to efficient allocation of resources or and resources

Negative implications of price mechanism are:-

- It leads to consumer exploitation due to consumer ignorance / market imperfections
- It leads to distortion of consumer choices through advertising
- It leads to monopoly power where consumer's preference may be ignored
- It leads to divergence between private and social benefits e.g. over exploitation of resources
- It does not adjust quickly to structural changes

- It fails to allocate resources in priority areas or ignores socially profitable ventures or disappearance of cheap goods
- It leads to economic instabilities i.e. inflationary and deflationary tendencies or price fluctuations
- It leads to wastage of resources due to wasteful competition – duplication of activities
- Unemployment problem arises where inefficient firms are outcompeted
- It leads to income or wealth inequality

*Any 6 × 1
= 6 marks*

3. (a) **Disposable income** is the income available to individuals and households for spending or saving after personal income taxes and other compulsory payments have been deducted. *02 marks*

Where as

Income per capita is income per person or head or average income of the population in the country in a given time. *02 marks*

(b) Limitations of using per capita income to compare standards of living between countries.

- It does not take into account differences in the nature of income distribution between countries
- It ignores differences in the nature of government expenditure between countries
- It ignores differences in the amount of leisure enjoyed between countries / working conditions.
- It does not take into consideration differences in the size of subsistence sector between countries.
- It ignores differences in requirements between countries due to climatic differences.
- It ignores differences in tastes and preferences between countries.
- It does not consider differences in the quality of goods produced between countries.
- It does not consider differences in the nature or type of goods produced between countries i.e. capital goods or consumer goods.

- Does not consider differences in price structures or levels or rate of inflation between countries.
- Does not consider differences in the levels of employment between countries.
- It ignores differences in the levels of taxation between countries.
- It ignores differences in political climate between countries.
- It does not consider differences in transport costs or costs of production between countries.
- It does not put into account differences in the levels of accuracy in data collection between countries.
- It does not consider differences in boundary of production and methods of compiling national income between countries.
- It ignores differences in social costs between countries.

*Any 8 × 2 mentionin-1
= 16 marks Explanation-1*

4. (a) **Bi – lateral aid** refers to direct assistance from one country to another **02 marks** While **Multi – lateral aid** is the assistance offered to a country through international aid agencies or multi – national agencies e.g. World Bank, IMF, etc. **02 marks**

(b) **The impact of foreign aid on the development of an economy**

Positive impact

- It helps in filling the savings – investment gap by supplementing the domestic savings
- It fills the foreign exchange gap by getting foreign exchange from donors to finance the country's import expenditure
- It fills the man power gap by providing skilled manpower
- It increases employment opportunities through increased investments
- It facilitates in the utilization of idle resources
- It helps in the development of infrastructure

*Any 8 × 1
= 8 marks*

- It helps in alleviating effects of natural disasters or catastrophies
- It helps in closing technological gap through technological transfer
- It helps in closing government revenue – expenditure gap or budgeting gap
- It strengthens international relations
- Where it is well utilized, it improves productivity and skills
- Foreign aid in form of capital investments accelerates industrial growth.

Negative impact of foreign aid

- Balance of payments problems due to repayment obligations especially when the aid is tied
- Debt servicing sometimes denies nationals of essential goods and services
- It leads to unemployment e.g. technical aid which may be inappropriate.
- It worsens economic dominance of donors over the recipients.
- It leads to repatriation of the country's resources or income and profit repatriation
- Some foreign aid may be tied to unproductive or non – priority projects or sectors or areas.
- The aid bogs down initiative as recipients constantly expect more aid or people become lazy.
- In most cases the aid is inadequate.
- It is inconsistent and thus distorts planning.
- It erodes social or cultural values of the recipient country.
- Sometimes the preconditions set are disastrous e.g. SAPS.
- It encourages extravagant use of resources.
- It may lead to inflation.
- It leads to reduced domestic production of some goods
- It leads to underutilization of domestic resources
- Political strings attached to aid may undermine political sovereignty
- It may be withdrawn before completion of projects leading to project failure
- Aid in form of goods sometimes may be in form of expired goods / dumping

<i>Any 8 × 1 = 8 marks</i>

5. (a) **The role of agriculture in the development of an economy.**

- It provides employment opportunities to the people
- It ensures equitable income distribution since it is basically labour intensive
- It supplies labour to other sectors of the economy
- It provides revenue to government through taxation
- It provides revenue to government through taxation
- It provides market to the industrial sector
- Contribution towards the Gross domestic product (GDP) of the country or promotes resource utilization
- It generates foreign exchange to the country
- It supplies raw materials to the industrial sector
- Encourages rapid development of infrastructure
- Promotes balanced regional development
- It is a source of food for the people

*Any 6 × 2
= 12 marks*

(b) **Measures to improve the agricultural sector**

- Land reform policies to make land more accessible
- Provision of credit facilities to farmers to increase their capacity to exploit land
- Carry out research in all fields or new farming methods
- Provision of extension services to the farmers
- Put emphasis on agricultural diversification
- Mechanization of the agricultural sector or technology
- Improvement of infrastructure
- Industrialization within agriculture
- Development and or revival of cooperative s
- Provision of subsidized inputs to farmers or provide inputs
- Train of labour
- Ensure political stability
- Market expansion e.g. through regional integration
- Improve pricing policies e.g. through strengthening commodity agreements

*Any 8 × 1
= 8 marks*

6. (a) Causes of unemployment in an economy.

- Technological progress and increased use of capital intensive methods of production causing technological unemployment
- Changes in seasons especially in agriculture
- Changes in tastes / limited market / fall demand / falling prices
- Poor land tenure system
- Poor education system / inappropriate education or limited skills
- Rural – urban migration causing open or urban migration causing open or urban unemployment
- Rapid population growth rates compared to employment creation
- Poor attitudes towards work or laziness
- Discrimination in the labour market based on sex, age, religion etc
- Structural adjustment programmes e.g. retrenchment, privatization etc
- Limited co-operant factors, capital, land
- Physical and mental incapacitation causing residual unemployment
- Ignorance of job opportunities
- Political instability
- Changing jobs causing frictional unemployment
- Poor manpower planning

*Any 10× 1
= 10 marks*

(b) Effects of unemployment in an economy

- Decline in the level of acquired skills
- Increases the dependency burden
- Results into low production
- Low government revenue
- Worsens income and wealth inequality
- Low aggregate demand for goods and services / small market size
- Leads to brain drain
- High crime rates led to social evil and alcoholism, drug abuse, gambling etc.
- High government expenditure
- Social unrest or instability in families
- Under exploitation of productive resources hence wastage
- Low standards of living and misery
- Creates political tension or unrest or political instability

*Any 10× 1
= 10 marks*

- Discourages investment in education
- Encourages rural – urban migration with its associated evils
- It increases government expenditure

7. (a) Benefits of regional economic integration

- Trade creation effect – trade shifts from high costs non – member states to low cost member states after the formation of an economic integration
- It stimulates expansion and establishment of manufacturing industries
- Vent for surplus the resources formerly unutilized will be utilized because of the widened market
- It increases gains from international trade and reduces costs of duplication e.g. one industry in one country to serve the whole group
- Easy access to foreign resources e.g. financial bodies can easily lend to such an integration other than individual countries
- It allows member countries to conduct research and collect information jointly at lower costs
- It encourages industries to compete and improve on the quality to products they produce.
- It increases the bargaining power of countries in the union in international trade
- Countries can share common service e.g. railways and air services or infrastructure
- Trade can be eased by the use of one currency.
- It can lead to political cooperation and mutual understanding among member states.
- Increased employment opportunities due to free mobility of factors of production
- Increased volume of goods leading to increase in economic growth
- Increased investment due to the large market
- It avails a variety of goods and services among member states

<p><i>Any 10×1</i> = 10 marks</p>

(b) Factors that have undermined the achievement of regional economic integration in developing countries.

- They tend to produce similar goods or limited market
- Failure to share benefits equally
- Fear of loss of customs revenue
- Political instability
- Differences in economic policies
- Differences in levels of development
- Differences in social factors e.g. culture, religion, language
- Conflicts among leaders
- Differences in currencies
- Differences in political ideologies
- External influence or interference
- Poor infrastructure among countries
- Lack of political will or support
- Limited geographical proximity between countries
- Differences with market or population size

Any 10 X 1 = 10 marks

8. (a) **Fiscal policy** is a deliberate policy under which the government uses its expenditure and revenue (taxation programmes to regulate the level of economic activities.

04 marks

(b) Objectives of the fiscal policy

- To increase the rate of economic growth through influencing production levels
- To improve balance of payments position / by discouraging imports and promoting exports
- To protect infant or domestic industries by use of import duties
- To reduce income inequality by taxing the rich and subsidizing the poor
- To achieve balanced regional development by taxing already developed areas
- To create more employment opportunities through promotion of investment or subsidization of producers

- To discourage consumption of demerit goods through high taxation
- To ensure price stability through increased taxation and reduced government expenditure
- To influence investment levels through tax relief
- To achieve desirable political objectives e.g. through tax reductions, relief / exemption.
- To improve incomes and quality of life of the population by increasing government expenditure on social services.
- To raise government revenue through taxation
- To control monopoly through taxation or subsidization of the firms
- To influence resource allocation through tax holidays / relief.

<p><i>Any 8 × 2</i> <i>= 16 marks</i></p>

SECTION A

1. (a) (i) Define **effective demand** (2marks)
(ii) Explain the factors that limit effective demand in an economy
- (b) (i) Distinguish between **producer's surplus** and **consumer's surplus** (2marks)
(ii) Given that the market price of a commodity is shs 65000.
Calculate the producer's surplus in the table below (2marks)

Price	3000	3500	4000	4500	5000	5500	6000	6500
Shs	0	0	0	0	0	0	0	0
Supply	1	2	3	4	5	6	7	8

- (c) (i) Distinguish between **casual unemployment** and **residual unemployment** (2marks)
(ii) State any two effects of unemployment in an economy (2marks)
- (d) (i) What is meant by **marginal propensity to import** (2marks)
(ii) Outline two effects of high marginal propensity to import (3marks)
- (e) (i) Define a **reproductive debt** (1 mark)
(ii) State three ways in which a public debt can be redeemed. (3marks)

SECTION B

2. (a) Explain how a firm in a monopolistic competitive market determines profits in the short run (6 marks)
(b) Examine the merits and demerits of monopolistic competition (14 marks)
3. (a) Discuss the reasons why a country may adopt an export promotion strategy of industrial development. (10 marks)
(b) Explain the limitations of the export promotion strategy of industrial development in an economy (10 marks)
4. (a) Distinguish between **labour supply** and **labour force** (4 marks)
(b) Explain the factors that determine labour supply in an economy (16 marks)

5. (a) Given that the volume of money in an economy is £20billion, total level of transaction is £250million and the transactions velocity of money is 20. Calculate the general price level in the economy (4 marks)
- (b) Explain the Limitations of Irving Fisher's quantity theory of money (16 marks)
6. (a) Distinguish between **mild inflation** and **hyper inflation** (4 marks)
- (b) Assess the effects of **hyper inflation** in an economy (16 marks)
7. (a) Distinguish between **debt financing** and **taxation financing** (4 marks)
- (b) Why government may rely more on debt financing than taxation financing. (16 marks)

END

SECTION A

- 1 (a) (i) **Effective demand** is the desire to acquire or possess a commodity backed by the ability to pay of it. *01 mark*

Or

It is the actual amount of good or series purchased by the consumer at a given price and at a given time.

Or The actual buying of goods and services at a given time.

(ii) **Factors that limit effective demand in an economy**

- High prices for goods and services
- Low levels of consumers' income
- Unfavourable tastes and preferences
- High prices of complementary goods
- Low prices of substitute goods
- Expectation of a fall in future prices
- Unfavourable season or end of season
- Limited credit facilities
- Government policy against consumption of a product / high taxation or low subsidization
- Low level of advertising
- Uneven distribution of income
- Low population size / small population size.

*Any 3 × 1
= 3 marks*

- (b) (i) **Producer's surplus** is the excess earnings between what the producer was willing to charge for the commodity and what he actually receives after selling. *01 mark* **While**

Consumer's surplus is the difference between what the consumer is willing to pay and what he pays for the commodity.

01 mark

Or It is the extra utility enjoyed by the consumer without paying for it.

- (ii) **Producer's surplus** = Actual revenue - Expected revenue *01 mark*

Expected revenue = $30,000 / = + 35,000 / = + 40,000 / = + 45,000 / = + 50,000 + 55,000 + 60,000 + 65,000 = 380,000$.

Actual revenue = $65,000 \times 8 = 520,000$

Therefore; producer's surplus = $520,000 - 380,000$

Ugx.Shs.140,000..... *01 mark*

- (c) (i) **Casual unemployment** refers to a situation where workers are employed on temporary basis and as soon as their contract or work or season is over, they become unemployed. *01 mark* **While**

Residual unemployment is one which results from physical or mental handicaps making one fail to get a job or work, *01 mark*

(ii) Effects of unemployment in an economy are;

- It increases the dependency burden of the unemployed on employed.
- It leads to low government tax revenue
- It worsens income and wealth inequalities
- It leads to rural – urban migration with its associated adverse effects
- It leads to high government expenditure on the unemployed
- It leads to brain drain
- It results in low aggregate demand for goods and services
- It leads to low production or low GDP or low economic growth
- It leads to underutilization of productive resources or wastage of resources
- It leads to low standard of living and misery among the unemployed or poverty
- It leads to social unrest or instabilities in families
- It leads to social evils e.g. alcoholism, prostitution among the unemployed.
- It creates political tension or unrest
- It leads to a decline in the acquired skills
- It discourages investment in education

<i>Any 2× 1 = 2 marks</i>

(d) (i) **Marginal propensity** to import refers to the proportion of the additional income that is spent on imports. *01 mark*

Or It is the ratio of change in imports to change in income. *01 mark*

(ii) Effects of high marginal propensity to import

- High outflow of foreign exchange
- Unfavourable balance of payments position or increased debt burdens
- Limited growth of local industries or decline of local industries
- Unemployment problem
- Increased dependence on other economies
- Limited innovations and inventions
- Leads to imported inflation
- It leads to underutilization of local resources
- It leads to erosion of social cultural values
- It increases government tax revenue
- Provision of a variety of goods.

*Any 3 × 1
= 3 marks*

(e) (i) **A reproductive debt** is where the borrowed money is used to purchase real asset or finance productive projects which bring in returns used to pay back the loan i.e. it is a self-liquidating debt.

(ii) Two ways in which a public debt can be redeemed.

- Through borrowing from a cheaper source to pay a due debt or debt conversion
- Through debt rescheduling i.e. asking for an extension in the time or date of repayment
- Through debt repudiation i.e. outright refusal to repay the debt
- Through disinvestment or privatization
- Through debt relief or cancellation
- Creating a sinking fund
- Drawing a surplus budget
- Drawing on foreign reserves
- Use of gifts and grants or sale of gold reserves or donations
- Use of profits made by government enterprises
- Though sale of government securities to the public

*Any 2 × 1
= 2 marks*

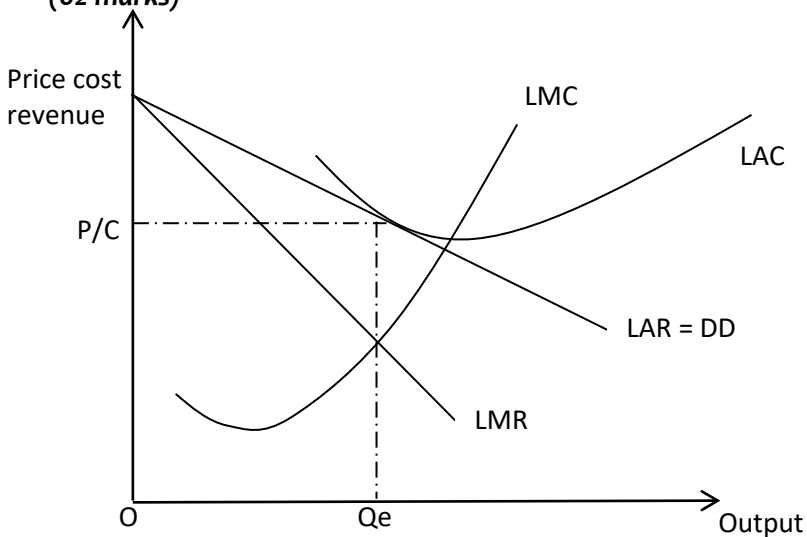
- Through taxation or capital levy
- Borrowing from the central bank or printing more money or financial accommodation.

SECTION B

- 2 (a) In the long run, a firm in a monopolistic competitive market determines output at a point where marginal cost equals to marginal revenue

$$LMC = LMR.$$

(02 marks)



- Price is determined where output line meets the LAR curve, the LAR is tangential to LAC. (01 mark)
- In the long run, the firm earns normal profits (zero profits) since the LAR = LAC. (01 mark)

(b) Merits of monopolistic competition

- A variety of products is produced due to product differences
- High quality products are produced due to competition
- Abnormal profits earned in the short run can be used for expansion
- Promotes innovations and inventions

*Any 7 × 1
= 7 marks*

- Low prices are charged due competition
- Persuasive advertisement enables firms to expand market for their products
- High output is produced due to presence of many firms
- Source of revenue for the government through taxation
- Provision of employment

Demerits of monopolistic competition

- Underutilization of resources because of producing at excess capacity
- Limited research since firms earn normal profits in the long run
- Wastage of resource due to duplication
- High cost of production e.g. on advertising and product differentiation
- Limited market share because of the many firms in monopolistic competition
- Distortion of consumer choices
- Prices charged are higher compared to perfect competition
- Consumer exploitation leads to unemployment due to exit of firms

*Any 7×1
= 7 marks*

3 (a) Reasons why a country may adopt an export promotion strategy of industrial development.

- To increase foreign exchange earnings
- To improve the country's balance of payments position
- To diversify the economy
- To widen the tax base of the country
- To expand market for the country's goods and services
- To create more employment opportunities
- To facilitate the exploitation and utilization of idle resources.
- To reduce the dominance of subsistence production and hence commercial production and promote commercial products
- To increase economic growth or GDP
- To promote growth of the industrial sector
- To promote specialization
- To promote technological development

*Any 10×1
= 10 marks*

- To promote international cooperation
- To develop entrepreneurship or innovation
- To promote infrastructure development
- To produce high quality products

(b) Limitations of the export promotion strategy of industrial development

- Low quality products that cannot compete favourably in foreign markets.
- Inadequate capital to set up industries
- Limited skilled man power to employ in the industries
- Limited entrepreneurial skills
- Limited local natural resources or raw materials
- Poor infrastructure
- Low level of technological development
- Protectionist policies of developed countries
- Political instabilities
- Limited market among LDCs due to production of similar products
- Production of expensive products due to high cost of production firms are usually high cost produces.
- High cost of advertising, market research
- Limited export promotion facilities or institutions
- Corruption and embezzlement or low levels of accountability
- Poor land tenure system.

<p><i>Any 10×1 = 10 marks</i></p>

- 4 (a) **Labour supply** refers to the measure of number of hours of work which is offered at a given wage rate and at a given period of time. (02 marks)

While

Labour force refers to the total number of people of a working age group available for employment at a given time i.e. it includes all those employed and the unemployed.

Or

It is the proportion of the population that is made up of the working age group, excluding full time students and house wives. (02 marks)

(b) Factors that determine labour supply in an economy

- The population size
- The health conditions of the worker or mental and physical
- The age composition of the population
- The working conditions
- Nature of the jobs i.e. risky or not risky
- The level of skills required in a particular job or graining period
- Attitude of the worker towards work
- Political climate
- The influence of trade unions
- The level of labour mobility, both geographically and occupationally
- The rate of migration of labour i.e. immigration and emigration
- Legal working age
- The wage rate
- The sex composition of the population
- The number of hours of work
- The level of discrimination of labour market

*Any 8× 2= 16 marks
Mentioning 1
Explaining 1*

5. (a) $MV = PT$ or $P = \frac{MV}{T}$ (01 mark)

$P = \frac{20,000,000,000 \times 20}{250,000,000}$ (02 marks)

$= 1,600$ or $1,600$ pounds 1 mark

(b) Limitations of Irving Fisher's quantity theory of money

- There is no general price level but rather a series of price levels
- The theory only attempts to explain changes in the value of money but not how the value of money is determined
- It ignores the influence of the rate of interest
- It does not take into account the demand for money but only looks at money supply

- An increase in money supply may result into saving more so if the MP is high, this reduces the velocity of circulation and price may fall.
- Haggling between buyers and sellers to reach an agreeable price is not taken into account.
- It ignores price control by the government
- It ignores other causes of price increase (inflation) e.g. cost push, demand pull etc
- It is just a truism which merely shows that M, V, P and T are related
- It ignores barter trade
- It considers only the transaction motive and ignores other motives for holding money like precautionary, speculative etc.
- The four variables M, V, P and T are not independent of one another because a change in one induces change in others.
- The theory assumes that velocity of circulation and the level of transaction are constant and this is not the case in real life.
- Where a country has many unemployed resources an increase in money and increase in O/P of goods and services which makes prices decrease or not.

<p><i>Any 8 × 2</i> = 16 marks</p>
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- 6 (a) **Mild inflation** is one which is characterized by a slow rise in the general price level, usually less than 10%.

While

Hyperinflation is one which is characterized by a rapid rise in the general price level, usually exceeding 10% per annum.

(b) Effects of hyper inflation

- Discourages savings due to constant loss of money value
- It leads to loss of confidence in the country's currency
- It worsens the balance of payments position / encourages capital outflow.
- High costs of production may lead to reduced production as some firms close down
- It discourages local and foreign investors
- It encourages illegal activities such as corruption, smuggling etc

- It leads to production and consumption of poor quality inferior goods / leads to low standards of living.
- It discourages lending as creditors stand to lose.
- It leads to unemployment as some firms close down.
- It promotes speculation in the economy
- It makes government planning difficult
- It leads to industrial unrest due to constant demand for high wages
- It leads to brain drain
- People are strained in an attempt to cope with the rising cost of living
- It worsens the problem of income inequality
- Fixed income earners suffer as real incomes fall with the fall in money value
- The government becomes unpopular or political.

7. (a) **Debt financing** is where government borrows money to finance its expenditure that may not be covered by the tax revenue.

(02 marks)

While

Taxation financing is where government uses revenue from taxes to finance its expenditure.

(02 marks)

(b) Why government may rely more on debt financing than taxation financing.

- Debt financing does not have negative political effects compared to taxes that may cost the government political popularity
- It is easier to borrow money than to tax
- Debt financing helps to realize a lumpsum of money compared to taxation which is slow in bringing in money.
- Debt financing makes use of both local and foreign sources of revenue compared to taxation which is only internal
- Debt financing does not have adverse effects on consumption compared to taxation that reduces the disposable income of the people
- Debt financing does not involve costly methods of collection compared to taxation

- Debt financing does not discourage production by increasing the cost of production unlike taxation which increases the cost of production
- Debt financing does not discourage savings and investment compared to taxation
- Debt financing increases foreign reserves of the country and encourages foreign investment compared to taxation which discourages potential foreign investors
- The burden of borrowing can be postponed to the future generations than taxation whose burden is felt by the present generation
- Borrowing can be used to fight inflation, especially internal borrowing compared to taxation which causes cost push inflation.
- Borrowing is a quicker method of raising money than taxation.

Any 8 × 2 = 16 marks
Mentioning 1
Explaining 1

SECTION A

1. (a) (i) Distinguish between **Nominal Gross domestic product** and **Real gross domestic product** (2 marks)
 (ii) Given that the GDP of the country is shs 400billion, Net income from abroad is shs. 40billion and the wearing of capital assets is shs 20billion. Calculate the NNP (2 marks)
- (b) (i) State any two factors that have influenced the level of foreign direct investment in your country. (2 marks)
 (ii) Give two benefits of foreign direct investment (2 marks)
- (c) Outline any **four** features of dualism in your country (4 marks)
- (d) (i) Distinguish between **cost push inflation** and **bottle neck inflation**
 (ii) Mention any two causes of bottle neck inflation (2 marks)
- (e) (i) What is meant by **Labour saving techniques** of production (2 marks)
 (ii) Give any two of the merits of labour saving techniques of production. (2 marks)

SECTION B

2. (a) Distinguish between **Competitive supply** and **Joint supply** (4 marks)
 (b) Explain the conditions that may lead to a decrease in the supply of a commodity in your country. (16 marks)
3. (a) Distinguish between **economic growth** and **economic development** (4 marks)
 (b) Explain the costs of economic growth in your country (16 marks)
4. (a) Explain the causes of voluntary unemployment in your country (8 marks)
 (b) Suggest measures that should be taken to reduce the level of unemployment in your country. (12marks)

5. (a) Distinguish between **banking financial institutions** and **Non – banking financial institutions** (4 marks)
(b) Explain the functions of banking financial institutions in your country (16 marks)
6. (a) What is meant by **Balance of payment** (4 marks)
(b) Explain the causes of persistent balance of payment deficits in your country (16 marks)
7. (a) Distinguish between **recurrent expenditure** and **development expenditure** (4 marks)
(b) Account for increase in public expenditure in your country (16 marks)

END

SECTION A

- 1 (a) (i) **Nominal Gross domestic product** – refers to GDP / one / national / output valued at current year prices.

Or

The total monetary value of all final goods and services produced within a country during a given period of time valued at current year prices. *01 mark*

While Real gross domestic product is one valued at base year prices at constant prices. *01 mark*

- (ii) $NNP = GDP + \text{Net income from abroad} - \text{depreciation}$. *01 mark*
 $= \text{Shs. } 400 \text{ billion} + \text{shs. } 40 \text{ billion} - \text{shs. } 20 \text{ billion}$. *(½mark)*
 $= \text{shs. } 420 \text{ billion}$ *½ mark*

- (b) (i) **Factors that have influenced the level of foreign direct investment in my Country.**

- The availability of investment incentives / tax incentives
- The level of infrastructural development
- Political atmosphere / climate
- The availability of raw materials / the natural resource(s) base
- The availability of capital / the existing stock of capital
- The entrepreneurial ability
- The techniques of production
- The labour skills
- The land tenure system
- The degree of conservatism
- The level of accountability / corruption
- The price stability / the rate of inflation
- The market size
- The degree of liberalization the economy
- The level / degree of bureaucracy
- The level of (external) publicity of invested country

Any 2 × 1

= 2 marks

(ii) Benefits of foreign direct investment

- Utilization of idle potential hence avoidance
- Provision of employment opportunities
- Increases labour skills / fills the manpower labour
- Increased output hence economic growth
- Provides revenue to government through infrastructural development
- Leads to technological transfer
- Widens consumer choices due to production
- Efficiency of local firms
- Leads to production of quality goods

*Any 2 × 1
= 2 marks*

(c) Four features of dualism in my country

- The coexistence of modern technology alongside rudimentary technology
- Commercial alongside subsistence production
- The coexistence of illiteracy alongside literacy
- Coexistence of Barter exchange alongside monetary exchange
- Coexistence of high income alongside low income earners
- Coexistence of developed private sector alongside poorly / under developed public sector
- Coexistence of under developed rural areas and developed urban centres
- Coexistence of agriculture alongside modern industrial sector

*Any 2 × 1
= 2 marks*

(d) (i) **Cost push inflation** – is a persistent general / average price level due to rising company production cost **01 mark**

While

Bottle neck inflation - is one caused by rigidities in an economy

Causes of bottle neck inflation

- Scarcity / shortage of inputs / raw materials
- Shortage of foreign exchange

Any 2 × 1 = 2 marks

- (e) (i) **Labour saving techniques of production** - is a method of production that uses proportionately more capital than (other factors of production especially) labour.
I.e. uses proportionately less labour than other factors (capital) (02 marks)

(ii) **Any two of the merits of labour saving techniques of production.**

- Economies of scale (are enjoyed) due to large scale production
- It leads to high quality of output
- Optimum utilization of resources / increased resources utilization
- High rate of growth of the industrial sector
- Increased labour efficiency / increased labour skills or productivity
- Reduced wage bill
- Leads to standardization of output
- Promotes infrastructural development
- Promotes technological transfer / development
- It is time saving
- It minimizes labour unrest

<i>Any 2×1 = 2 marks</i>

SECTION B

- 2 (a) **Competitive supply** – the supply of two or more commodities that use the same resources for their production such that an increase in supply of one product leads to decline in the supply / production other; examples include; eggs and meat from chicken, milk from cows, crop and animal production form a piece of land. 02 marks

While

Joint supply – refers to the supply of two or more commodities from the same process of production / same soils, same resources such that an increase in the supply of one commodity leads to increase in the supply of the other for example meat and skin from (slaughtered) animals; petrol, diesel and paraffin from crude oil (through fractional distillation). 02mark

(b) **Explanations of the conditions that may lead to a decrease in the supply of a commodity in my country.**

- Decline in the price of a jointly supplied product
- Increase in the price of a competitively supplied commodity
- Natural conditions becoming unfavourable / natural hazards
- Change in the producers (main) objective for example for sales maximization to profits maximization; profits maximization to personal welfare maximization
- The political atmosphere becoming unfavourable
- Break down of infrastructure
- Decline in the number of producers or exit of some firms from the industry
- Increase in the cost of production
- Fall in market demand
- Depreciation of capital or machines
- Shift from capital intensive or superior to inferior or poor or labour intensive technology
- Fall in the efficiency of factors of production (labour, entrepreneurship)
- Decrease in the supply of factors of production (labour, raw materials, expectations of future price increase)
- Government policy on production of the commodity becoming unfavourable

<i>Any 8×2 = 16 marks</i>

3 (a) **Economic growth** refers to a persistent increase in the quantity of goods and services produced in an economy at a given time. **Or**

The steady process by which the productive capacity of the economy is increased to bring about rising levels of national income. (02 marks)

While

Economic development is the persistent quantitative and qualitative increase in the goods and services produced in an economy over a given time (02 marks)

Or The (persistent) quantitative and qualitative increase in goods and services produced in an economy over a long period of time. It includes qualitative improvement in variables that improve life of citizens such as increase in freedoms of choice, self-esteem

(b) The costs of economic growth in my country;

- Leads to unemployment due to automation / technological exit of inefficient firms from production
- Widens income (and wealth) disparities
- Leads to decline in social and cultural values or cultural erosion to individualism
- Leads to imbalance in regional development
- Rural urban migration and its evils
- High levels of occupational hazards
- Environmental degradation / pollution
- Exhaustion of non – renewable resources due to over taxation
- Profits repatriation
- Increased / high dependence of external resources / debt
- Low quality of output
- Leisure time is foregone
- Sacrifice of present consumption (in order to save for investment)

*Any 8× 2
= 16 marks*

4 (a) The causes of voluntary unemployment;

- Laziness / negative attitude towards work
- The desire (by the unemployed) to live on past savings
- Low wages / remuneration in the available jobs
- The preference to live on others incomes / handouts
- Expectations of better jobs in future
- The unemployment being too qualified for the available jobs
- Preference for leisure
- Poor working conditions in the available employment opportunity
- High risks involved in the available jobs
- Low status esteem attached to the available jobs / being socially unacceptable
- Social restrictions
- Social ties
- Unfavourable geographical location of jobs
- Good economic background

*Any 8× 1
= 8 marks*

(b) Measures that should be taken to reduce the level of unemployment in my country.

- Control population growth rate
- Train labour / education reforms / manpower planning
- Develop infrastructures
- Diversification of the economy
- Further privatization
- Reform the land tenure system
- Liberalization of the economy
- Improve the political atmosphere
- Encourage use of appropriate technology
- Improve investment climate / provide tax incentives to investors
- Widen market (for example by joining economic integration)
- Advertise jobs
- Modernize agriculture
- Provide (social) programmes for persons with special needs / disabilities
- Export surplus labour to other countries
- Promote industrialization
- Fight corruption
- Provide affordable credit for investment

*Any 8 x 1
= 8 marks*

- 5 (a) **Banking financial institutions** are firms or organisations / financial institutions that receive deposits, give out loans and create credit / create new deposits. *02 marks*

Where as

Non – banking financial institutions – are those that receive deposits, give out loans but do not create credit. *(02 marks)*

(b) Explanations of the functions of banking financial institutions in my country:

- Accepting deposits
- Advancing loans
- Acting as custodians of their customers valuables (by providing strong rooms)

*Any 8 x 2 = 16
marks*

- Issuance of various forms of credit instruments / provides means of payments such as cheques, drafts, credit and debit cards
- They issue letters of credit and act as referees
- Providing advice to investors (on possible investment choices).
- Under writing shares and debentures of companies as well as discount bills of exchange
- Acting as trustees and executors of property and wills of their customers
- Exchanging of currencies of different countries

6 (a) **Balance of payment** – refers to the difference between country's receipts / income from abroad and expenditure / payment abroad during a given time. **Or**

It is a systematic record of a country's receipts and payments in international transactions in a given year or;

The difference between earnings / incomes / receipts from abroad and payments abroad (visible and invisible trade and net capital transfers) of a country during a given time. **4 marks**

(b) Causes of persistent balance of payment deficits in my country

- Low volume of exports
- Exportation of low quality products
- Exportation of mainly primary products such as agricultural raw materials
- High (marginal) propensity to import / high preference for goods from other countries.
- Political instability leading to heavy expenditure on the importation of military hardware
- Importation of highly priced (manufactured consumer and capital) goods
- High expenditure on payments / servicing external debts
- Trade restrictions in export markets
- Heavy government expenditure abroad e.g. on diplomatic contributions to international organizations
- High levels of profits and wages repatriation

*Any 8 x 2
= 16 marks*

- Market flooding / limited markets abroad due to exportation of products by developing economies
- Prices of exports are externally determined
- Limited variety of exports

7 (a) **Recurrent expenditure** (of government) = consumption expenditure = operating expenditure – is the day to day expenditure of government aimed at maintaining existing capacities for example, payment of wages, rates, rent, interest on the debt and periodic contributions to international organizations. **02 marks** While

Development expenditure (by government) = capital expenditure is the expenditure by government on the establishment of price for purposes of both expanding existing capacities and creating ones to generate more goods and services, for example, expense on setting up medical centres, schools, roads and other forms of infrastructure.

02 marks

(b) **An account for increase in public expenditure in my country**

- Rising costs of infrastructure development
- Rising emergency funding due to frequency of natural hazards
- Systematic corruption / rising levels of corruption / embezzlement by public or rising costs of fighting corruption
- Rising defence expenditure due to (increasing) social political unrest
- Increasing expenditure on the settlement of the public debt
- Rising expenditure on international commitments / engagement
- Continuous over ambitious planning
- High rate of inflation (leading to rising costs of project importation)
- High population growth rate
- Rising administrative costs due to increase of public service, creation of new districts
- Rising government expenditure on programme.

<p><i>Any 8 x 2 = 16 marks</i></p>
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SECTION A

1. (a) (i) Distinguish between **economic profits** and **normal profits** (2 marks)
(ii) State any two factors that influence the level of profits in your country (2 marks)
- (b) (i) Define a **development goal** (1 mark)
(ii) Give any three development goals your country is striving to achieve (3 marks)
- (c) Mention four factors which limit the effective operation of trade unions in your country (4 marks)
- (d) (i) What is **economic development planning** (1 mark)
(ii) Outline any three factors that affect the implementation of development plans in Uganda (3 marks)
- (e) (i) Distinguish between **taxable capacity** and **tax base** (2 marks)
(ii) Give two reasons for narrow tax base in Uganda (2 marks)

SECTION B

2. (a) Describe the features of an oligopoly market (8 marks)
(b) Explain the merits and demerits of oligopolistic markets in your country (12 marks)
3. (a) Discuss the role of the private sector in the economic development of your country (10 marks)
(b) Explain the measures that have been taken to promote the development of the private sector in the country includes (10 marks)
4. (a) What is meant by **foreign aid** (4 marks)
(b) Trace the impacts of foreign aid to the development of your country. (16 marks)
5. (a) Justify the need for monetary policy in Uganda (8 marks)
(b) Explain the Factors that limit the success of the monetary policy in your country (12 marks)

6. (a) What is meant by **trade liberalization** (2 marks)
- (b) (i) Explain the merits of trade liberalization in your country (9 marks)
- (ii) Explain the demerits of trade liberalization in your country (9 marks)
7. (a) Discuss the contribution(s) of public enterprises to the development of your country (10 marks)
- (b) Explain the problems faced by public enterprises in your country (10 marks)

END

SECTION A

- 1 (a) (i) **Economic profits** are earnings measured or derived by getting the difference between revenue and opportunity cost of factors used in the production of output sold the firm **Or**

Difference between revenue got by a firm and what it would have got in the second best alternative use / employment. **01 mark**

While Normal profits are earnings or rewards to an entrepreneur(s) or a firm(s) that is just sufficient / enough to cover total costs or keep him / it in production without inducing other firms to join the industry.
01 mark

(ii) Factors that influence the level of profits in my country

- Price levels / the rate of inflation
- Cost of production / cost of sales
- Goal / objective of (the) producer(s)
- Entrepreneurial skills / organizational ability
- Degree of risks (of investment)
- Level of output / supply / turnover / size of the firm
- Market size / demand
- Ease of entry of firms into an industry / number of firms in an industry
- Level of competition

<i>Any 2x1 = 2 marks</i>

- (b) (i) **A development goal** is a preset target / objective of development that is to be achieved by an economy (during a given time) or targets relating to improvements in citizens social – economic welfare that an economy aspires to achieve (during a given time). **01 mark**

(ii) Development goals in my country include:-

- Attainment of high and stable growth rates
- Achievement of stable / favourable B.O.P position
- Attainment of full employment / to reduce the level of unemployment.
- Equitable distribution of income / attaining regional balance in development
- Achieving price stability
- Elimination of illiteracy / to attain large pool of high skilled labour
- To provide security to people and their properties / to attain and maintain political stability / to attain high levels of political maturity
- To control population growth rates
- Reduce economic dependence / attain self sufficiency

*Any 3x1
= 3 marks*

(c) Factors which limit the effective operation of trade unions in my country are as follows:

- Disunity of workers
- Poor leadership ability
- Political interference
- Limited funds
- Limited skills of members
- High levels of unemployment
- Limited membership / low level of unionization
- Low demand for products produced by members
- Poor economic performance / low profitability of firms
- Low demand for labour
- Low level of accountability / corruption
- Poorly developed infrastructure(s) / poor communication
- High proportion of wage bill to total costs
- A paltry / ignorance of workers of their rights
- Having other sources of income by trade members

*Any 4x1
= 4marks*

- (d) (i) Economic development planning** is the conscious governments effort to influence, direct and in some cases control (changes) in a nation's principle economic variables to achieve pre – determined

objective / objective of development over a given period of time **or**

It is a deliberate governments' effort to formulate decisions on how productive resources shall be allocated among different users in order to attain targeted economic objectives over a given period of time.

01 mark

(ii) Factors that affect the implementation of development plans in Uganda are as follows;

- The availability of funds
- The availability of data / information
- The (degree of) responsiveness of the private sector
- The level of government commitment / the level of conservatism or the will of the people
- The degree of political interference
- The efficiency of the implementation machinery / the labour skills
- The political atmosphere / climate
- The level of accountability
- The rate of inflation / the price level
- The ambition of plan (ning) relative to means / the degree of ambitiousness of planning
- The degree of dependence on external resources or aid for planning
- The level of dependence on external resources or aid for planning
- The level of dependence on nature
- The level of infrastructural development

<i>Any 3x1 = 3marks</i>

(e) (i) Taxable capacity is the ability of the tax payer to pay a tax assessed on him or her and retain enough (disposable) income to enable him or her live a life he or she is accustomed to; **or**
The ability of a nation to raise expected revenue from taxes without causing socially harmful results or effect; **or**

The extent to which government can levy taxes without causing adverse effect on tax payers.

01 mark

While

Tax base – is an economic unit / activity (income, person, firm, institution, entity, property, etc) on which a tax is levied. **01 mark**

(ii) Reasons for narrow tax base in Uganda

- Low levels of income
- Large subsistence sector / limited commercialization of the economy
- Limited employment opportunities
- Limited economic diversification / of investment / industrialization.
- Tax exemptions / provision of tax incentives to potential tax payers by government
- Poorly developed infrastructure(s)
- Poor identification of tax sources / limited skills of the tax officials
- Political instability (making it difficult access possible tax sources)
- Small formal sector / large informal sector
- Low level of accountability / corruption

<i>Any 2x1 = 2marks</i>

SECTION B

2(a) Features of an oligopoly market include the following:-

- Few firms and many buyers existing in the market
- Production of either differentiated or homogeneous products
- Limited freedom of entry and exit (by firms)
- Close interdependence between firms
- Use of intensive sales promotional activities or non – price
- Competition e.g. advertising, provision of after sales services etc.
- High degree of uncertainty in the market
- Price rigidity
- No unique pattern of pricing; e.g. price leadership collusive price, independent pricing by firms
- Profit maximization is the main motive of production
- Firms in the market are faced with kinked demand curve
- Different sizes of firms

(b) (i) Merits of oligopolistic markets include the following:

- Low prices to consumers (due to economies of scale)
- Price stability that eases consumer budgeting
- Widen consumer choices due to production of variety of goods
- Production of (high / better) quality goods due to competition
- Provide employment opportunities
- Develop infrastructures
- Contribute revenue to government
- Increased innovations due to competition and the need to maximize profits
- Enable firms to enjoy abnormal profits / super normal profits
- Contribute to economic growth by increasing output
- Consumers benefit from non – price competition
- Increased resource utilization

*Any 6× 1
= 6marks*

(ii) Demerits of oligopolistic markets are as follow:

- Distortion of consumer choices through advertising
- Exploitation of consumers through over – charging due to collusion / profit maximization
- High costs of production due to intensive sales promotional activities / high prices of final products due to high costs of competition
- Duplication hence wastage of resources
- Worsen / cause problem of income inequality in the / an economy
- They lead to collapse of small firms due to competition
- Limited employment opportunities are created
- Industries with large firms exert pressure on government
- Limited enterprises / development / limited investment
- Under – utilization of resources due to operation at excess capacity
- Limited variety of goods in perfect oligopoly markets

*Any 6× 1
= 6marks*

3(a) Role of the private sector in the development of my country

- Provision of employment opportunities
- Provision of capital; both local and foreign
- Promotion of industrialization

- Providing revenue to the government
- Development of entrepreneurship skills
- Promotes innovations / inventions / technological development
- Infrastructural development / improvement
- Provides a basis for competition thus efficiency
- Provision of variety of goods and services / widen consumer choices
- Improves quality of goods and services
- Facilitates increased use of resources hence avoiding wastage
- Increased economic growth / GDP due to increased output
- Increases commercialization of the economy
- Helps improve the country's BOP position
- Diversifies the economy / reduces dependence

*Any 10×1
= 10 marks*

(b) Measures that have been taken to promote the development of the private sector in the country includes: -

- Development / improvement of infrastructure
- Provided affordable loans / credit facilities to investors
- Ensured political stability / improved the political climate
- Widened markets both local and foreign
- Ensured price stability / fought inflation / promoted forex rate stability
- Undertaken privatization policy
- There has been liberalization of the economy
- Trained labour to develop relevant skills
- Offered investment incentives e.g. tax holidays / relief, subsidies etc.
- Encouraged technological development / transfer
- Provided land for development / changed land tenure (system)
- Improved entrepreneurship skills
- Encouragement of proper accountability
- Enacted copyright and patent right laws
- Undertook international campaigns and publicity
- Establishment of specialized institutions to promote investment

*Any 10×1
= 10 marks*

4(a) **Foreign aid** – the international transfer of resources / funds in the form of loans or grants or technical assistance, etc

Either directly from one government to another (that is bilateral aid) or indirectly through the vehicle of a multi-lateral assistance agency like world bank and the international monetary fund (multi – lateral aid). **Or**

Foreign aid is the transfer of resources from one country to another; either directly or through international agencies

It could be – bilateral aid or multilateral aid or forms of aid include; grants, loans, technical assistance etc. *04 marks*

(b) (i) Positive impacts of foreign aid to the development of my country.

- Closing the saving – investment, gap
- Closing the foreign exchange gap / inflow of foreign exchange
- Closing the technological / gap / leads to technological transfer
- Fills the government revenue expenditure gap / source of government revenue through borrowing grants etc
- Fills the (skilled) manpower gap enables the country to get skilled labour (from other countries).
- Alleviating effects of catastrophes
- Facilitating development of infrastructure
- Provision of employment
- Strengths international friendship or improves international relations
- Foreign aid in form of capital investment accelerates industrial growth in the country or diversifies the economy.
- Increases local skills through training
- Promotes economic growth
- Exploitation of idle resources hence avoidance of resource(s) wastage
- Promotes political stability

*Any 8 × 1
= 08 marks*

(ii) Negative impact(s) of foreign aid in the country are as follows:

- BOP problems due to repayment obligations
- Unemployment due to automation
- Undermines capital formation due to debt servicing and payment
- Debt servicing sometimes denies nationals essential goods and services
- Encourages laziness / kills local initiatives
- Planning difficulty due to aid being inconsistent, inadequate, tied etc.
- Political strings attached to aid undermine our political sovereignty
- Underutilization of local resources or reduced domestic production of some goods /hinders growth of some consumer goods industries
- High costs of (borrowing) due to aid being tied to source / purchase tied aid.
- Leads to brain drain
- Leads to cultural erosion / erodes social values
- Worsens economic domination by donors
- Sometimes preset conditions are disastrous,

*Any 8 × 1
= 08 marks*

5(a) Objectives of monetary policy in Uganda include the following;

- To attain / ensure price stability
- To influence the level of employment / to attain full employment
- To influence / improve B.O.P position
- To ensure stability of exchange rates
- To influence the level(s) and nature of investment
- To encourage growth of the financial sector
- To influence the rate of economic growth.

*Any 6 × 1
= 06 marks*

(b) Factors that limit the success of the monetary policy in the country

- Ignorance of the public of open market operations
- Excess liquidity in commercial banks
- High liquidity preference of the population
- Large subsistence sector
- Dominance of (defiant) foreign owned commercial banks
- Underdeveloped money markets
- Conflicting government objectives
- Poor distribution of commercial banks
- Political interference
- Corruption (especially in the use of selective credit control)
- Limited effective use of commercial banks (due to ignorance) illiteracy / low incomes / little credit worthy borrowers / limited collateral / security.

*Any 7 × 2
= 14 marks*

6(a) **Trade liberalization** is the removal of unnecessary controls on trade hence giving people the liberty to trade without undue government controls./
Or The removal of unnecessary restrictions to trade (by relaxing the use of instruments such as quota, total ban, tariffs and administrative control) in order to give people opportunity for increased participation in trade / to increase value, volume and benefits of trade. *02 marks*

(b) Merits of trade liberalization in Uganda are:-

- Increased employment opportunities
- Increased level of output hence increased growth rates
- Encourages resource(s) utilization
- Encourages inventions and innovations / technological transfer / Competition forces firms to be efficient in order to remain in business
- Improved quality of goods
- Increased revenue to government e.g. through taxation
- Fights corruption
- Tends to control (structural) inflation
- Improved B.O.P position as exports are encouraged

- Reduces income and wealth inequalities (among people and regions)
- Encourages foreign investment / inflow of capital
- Upholds consumer sovereignty
- Wide variety of goods are produced / widens consumer choices
- Increased infrastructural development
- Improves relations with (other countries especially) donors
- Promotes economic diversification
- Promotes entrepreneurship skills
- Helps to develop labour skills

*Any 9 × 1
= 09 marks*

(ii) Demerits of trade liberalization in my country include:-

- Makes the economy susceptible to instabilities especially price fluctuations
- Collapse of local firms due to competition
- It leads to unemployment
- Danger of resource misallocation
- Duplication hence resource(s) wastage
- Depletion of some resources due to over exploitation
- Flooding of markets that sometimes force prices to go very low to unacceptable levels
- Distortion of consumer choices due to advertisement / intensive sales promotional activities
- Consumer exploitation due to ignorance
- Encourages capital outflows
- May give rise to monopoly and its associated evils
- Leads to increased exposure of consumers to harmful products
- Leads to income and wealth inequalities
- Environmental degradation is accelerated
- Foreign economic dominance

*Any 9 × 1
= 09 marks*

7(a) Contribution(s) of public enterprises to the development of my country;

- Provision of goods and services which have low commercial profitability but having high social economic benefits
- Creating employment opportunities

- Promoting investment
- Provision of essentials of life at fair prices
- Ensuring social security
- They avoid duplication and wastage of resources
- Promote economic independence / self-reliance / reduce dependence
- Mobilized savings
- They protect nationals from exploitation (by private firms)
- Complement private sector hence avoid monopoly
- Protect primary producers from exploitation
- Helping raise revenue to government
- Production of goods of strategic importance
- Investing in areas where private firms do not have enough capital for the ventures
- Lead to infrastructural development
- Increased labour skills
- Increased output hence economic growth
- Promoted equity in the distribution of income and wealth
- Promoted balanced regional development
- Increased resource utilization

*Any 10 × 1
= 10 marks*

(b) Problems faced by public enterprises in my country are:

- Inadequate capital
- Poorly developed infrastructure
- Bureaucratic red tape / bureaucracy
- Political interference
- Political instability
- Foreign interference
- Limited commitment and interest on part of management
- Poor management / limited skilled manpower
- Low level of accountability / corruption / embezzlement
- Limited supply of raw materials
- Limited market size
- Poor techniques of production
- Competition from private sector
- Price instabilities

*Any 10 × 1
= 10 marks*

SECTION A

1. (a) Distinguish between
 - (i) a free good and an economic good (2 marks)
 - (ii) a public good and a private good (2 marks)
- (b) (i) Define **industrial inertia** (1 mark)
- (ii) Give reasons why the government should influence the location of an industry? (3 marks)
- (c) State four features of under development in your country (4 marks)
- (e) (i) What is **labour** (1 mark)
- (ii) State any three determinants of the size of labour force in your country (3 marks)
- (f) (i) Distinguish between **disguised unemployment** and **under employment** (2 marks)
- (ii) Mention two causes of disguised unemployment in Uganda (2 marks)
- (g) (i) Distinguish between **currency valuation** and **currency under valuation** (2 marks)
- (ii) Outline any two effects of currency under valuation in your country (2 marks)
- (h) (i) Define **protectionism** as used in international trade (1 mark)
- (ii) State the reasons why there is need for protectionism in your country. (3 marks)
- (i) (i) What is meant by **decentralized economic planning** (1 mark)
- (ii) State any three merits of decentralized economic planning (3 marks)
- (j) (i) Distinguish between a **private enterprise** and **public enterprise** (2 marks)
- (ii) Give any two reasons for the establishment of public enterprises in your country (2 marks)

SECTION B

2. (a) Account for the survival of small – scale firms alongside large – scale firms in your country (10 marks)
(b) Discuss the merits of small scale firms in your country Uganda (10 marks)
3. (a) Explain the features of an oligopolistic market (10 marks)
(b) Discuss the demerits of oligopolistic markets in an economy (10 marks)
4. (a) What is meant by a **Monetary policy** (2 marks)
(b) Describe the tools of monetary policy used in your country (18 marks)
5. (a) Describe the structure of Uganda’s industrial sector (8 marks)
(b) Examine the factors which have influenced the development of the industrial sector in Uganda (12 marks)
6. (a) What causes unemployment according to J.M Keynes (4 marks)
(b) Assess the effects of unemployment in your country (16 marks)
7. (a) Distinguish between a **floating exchange** and a **fixed exchange rate** (4 marks)
(b) Examine the merits and demerits of foreign exchange control in an economy (16 marks)
8. (a) State the principles of taxation (10 marks)
(b) Explain the problems faced by tax authorities in your country (10 marks)

END

SECTION A

- 1 (a) (i) **Free good** is one which exists in natural abundance and is enough for everyone to consume as much as they want at zero cost e.g. air, sunshine etc. *1 mark*

While

An economic good is that which is scarce in relation to its demand and the consumption involves cost i.e. consumers pay for it and thus it commands a price in the market. *01 mark*

- (ii) **A public good** is that which when provided for a particular group or individuals becomes available for others to use at zero or no extra costs and the consumption by one person does not reduce the amount available to other users e.g. defence, public roads *01 mark*

While

A private goods is a commodity or service that provides satisfaction or benefit to an individual who owns or pays for it. It is excludable in that the consumption by one consumer prevents the consumption by other consumers. *01 mark*

- (b) (i) **Industrial inertia** is the tendency of an industry to locate (or continue surviving) in an area where other industries exist even when factors which led to location of the industries there no longer apply. *1 mark*

- (ii) **The government should influence the location of an industry because of the following reasons.**

- To encourage the exploitation of some resources
- To create (more) employment opportunities
- To facilitate fair distribution of incomes
- To ensure balanced (regional) development
- To minimize adverse effect of localization
- To control monopoly tendencies
- To avoid unnecessary duplication and waste
- To fulfil political obligations
- For strategic reasons like security / easy management

*Any 2 × 1
= 2 marks*

(c) Features of under development in Uganda include;

- Predominance of subsistence agriculture
- Dualism
- Underutilization of productive resources
- Poor under developed infrastructure
- High population growth rates
- Low levels of skills or high illiteracy rates
- Use of poor or inappropriate technology
- Political immaturity or instability
- Low levels of entrepreneurship
- Prevailing of economic dependence
- Weak industrial sector
- High rates of unemployment and under employment
- Low income levels / low GDP.

4 X 1 = 4 marks

Factors which limit agricultural mechanization in Uganda.

- Limited skilled manpower
- Poor / under developed infrastructure
- Poor land tenure system
- Small market for our agricultural produce
- Limited capital stock
- Limited entrepreneurial skills
- Under developed technology
- Conservatism of some of our farmers
- Unstable or low agricultural prices
- Inapplicability where human judgment is necessary
- Unfavourable topography
- Political instability
- Corruption.

4 X 1 = 4 marks

- (e) (i) **Labour force** is the proportion of the population that is made up of the working age group, excluding full time students and house wives. **Or** It is the total number of people of the working age group that is available for employment at a given time.

(01 mark)

(ii) Determinants of the size of labour force in my country.

3 X 1 = 3 marks

- Size of the population
- Number of full time students or length of training period
- Health status of the population
- Government policy in terms of employment age or age structure
- Social customs or number of full time house wives.

(f) (i) **Disguised unemployment** is a situation where by labour force is actively involved in a productive activity but the marginal product is either negligible or zero. **(01 mark)**

While

Under employment is underutilization of labour force in the form of labour working less time than desired labour engaging in jobs far below his skills. **(01 mark)**

(ii) Causes of disguised unemployment in Uganda include:

- Shortage of land in some parts of the country or poor land tenure
- Inadequate supply of capital
- Excess supply of labour to an occupation
- Poor and uncoordinated manpower planning schemes
- Desire to retain work force for future use
- Nepotism in some sector which results into over enrolment over recruitment
- High population growth rates
- Lack of information about other existing jobs
- Inadequate skills

2 X 1 = 2 marks

(g) (i) **Currency revaluation** is the deliberate government act of raising the value of its country's currency in terms of other currencies.

It is the legal / official increase of external value of a country's currency. **(01 mark)**

While

Currency under valuation is fixing of the value of the country's currency by a monetary authority below the equilibrium exchange rate. (01 mark)

(ii) Effects of currency under valuation include:

- Increases exportation of goods
- Reduces imports
- Increases foreign capital inflows
- Encourages domestic production
- Reduces imported inflation
- Improves BOP position
- Worsens external debt burdens.

2 X 1 = 2 marks

(h) (i) **protectionism** is the economic policy of restricting trade between nations, through methods such as tariffs on imported goods, use of quotas, and a variety of other restrictive government regulations. (01 mark)

(ii) Reason why there is need for protectionism in Uganda.

- To protect local industries / producers
- To reduce dependence on foreign goods / attain self – sufficiency
- To encourage use of local resources
- To guard against consumption of undesirable goods
- To earn revenue through tariffs
- To encourage formation of regional cooperation
- To promote innovations at home
- Anti - dumping policy
- To minimize political influence from abroad
- To promote employment at home
- To improve the country's BOP position
- To increase O/P hence economic growth
- To control imported inflation.

3 X 1 = 3 marks

- (i) (i) **Decentralized economic planning** is one where by economic decision making and the implementation of plans is in line with set targets are undertaken by local government or local authority instead of the central authority.

(ii) Merits of decentralized economic planning

- Promotes use of local resources
- Ensures balanced regional development
- Ensures that each area or region takes full advantage of its priorities
- Efficiency in resource use is attained
- Fair distribution of employment opportunities
- Equity in income distribution is easily attained
- Reduced bureaucratic chain/ red tape
- Promotes the sense of belonging and commitment
- Controls rural urban migration

3 X 1 = 3 marks

- (j) (i) **A private enterprise** is a business unit owned and controlled by private individual(s). **(01 mark)**

While

A public enterprise is a business organization which is set up owned and controlled by the state or government. **(01 mark)**

(ii) Reasons for the establishment of public enterprises in Uganda include the following:

- To provide goods and services which have low commercial profitability but having high socio – economic benefits
- To avoid duplication and wastage
- To create employment opportunities
- To produce goods of strategic importance
- To provide essentials of life at fair price
- Promoting investment
- To raise revenue
- To ensure social security
- Promoting economic independence
- To protect nationals from exploitation

2 X 1 = 2 marks

- Because of heavy capital requirement
- To mobilize savings
- Complementing the private sector to avoid monopoly
- To protect primary producers from exploitation
- To stabilize prices and incomes
- To promote resource utilization

SECTION B

2 (a) **The survival of small – scale firms alongside large – scale firms in Uganda is because of the following reasons:-**

- Some of the small scale firms are still at their infancy
- Fear of heavy taxation associated with large scale firms
- Limited capital for expansion
- Some of the firms are experimental units
- Limited market for products of some firms
- Limited managerial skills and thus ease of control
- Government policy of encouraging small scale firms
- Limited sources of some inputs
- Fear of diseconomies that are associated with large firms
- Production according to special order
- Fear of losing control of the firm
- Inter dependence of firms
- Fear of loss or risks
- Fear of economic uncertainties
- Allow for flexibility
- Production calls for simple techniques

10 X 1 = 10 marks

(b) **Merits of small scale firms in Uganda are the following:**

- Easy to manage and control – easily affordable
- They are flexible thus less wastage
- Less costly, need little capital to set
- Promotes entrepreneurial development
- Encourage use of local resources
- Promote use of local technology
- Encourage fair income distribution
- Provide cheap / affordable goods to the population
- Promote innovation and creativity

10 X 1 = 10 marks

- Losses are limited
- Personal services are easily offered due to personal contact
- They create more employment opportunities
- They serve as a training ground for entrepreneurs
- A variety of goods/ services is produced
- They encourage the development of infrastructure

3 (a) **Features of an oligopolistic market included the following:**

- Few firms and many buyers existing in the market
- Production of either differentiated or homogeneous products
- Limited freedom of entry (and exit)
- Different sizes of firms
- Close interdependence between firms
- Use intensive sales promotional activities e.g. advertising, after sales services
- High degree of uncertainty
- Price rigidity
- No unique pattern of pricing, e.g. price leadership and collusion
- Profit maximization is the main motive of production
- It is faced with kinked demand curve.

10 X 1= 10 marks

(b) **Demerits of oligopolistic markets in an economy include:**

- Distortion of consumer choices
- Exploitation of consumers through over charging due to collusion
- High costs of production due to intensive sales promotional , activities or high prices of final products due to high cost of competition
- Duplication hence wastage of resources
- Worsen problem of income inequality in an economy
- They lead to collapse of small firms due to competition
- Limited employment opportunities are created.
- Limited entrepreneurial development or limited investment
- Industries with large firms exert pressure on government
- Underutilization of resources due to operation at excess capacity.

10 X 1= 10 marks

- 4 (a) **Monetary policy** refers to the deliberate attempt by the government through the central bank to regulate the amount of money in circulation so as to attain objectives of development such as price stability, stable economic growth rate etc. (02 marks)

(b) **Tools of monetary policy used in my country include:**

- The bank rate policy
- Open market operation
- Legal reserve requirement or compulsory disposals
- Margin requirement
- Rationing of credit or controlling amount of credit
- (consumers) selective credit control
- Special deposits
- Moral suasion
- Currency reforms
- Variable reserve requirement

9X 2= 18 marks

5 (a) **The structure of Ugandan industrial sector is such that;**

- It is mainly dominated by small scale industries
- Mainly comprise of processing industries
- Most of the firms in the sector are privately owned
- There is use of simple (labour intensive) technology in most of the firms
- The sector is basically urban based
- Mainly produce low quality manufactured goods
- Many of the industries are agro – based
- Durable consumer goods industries are mostly assembling plants
- Produce mainly consumer goods
- Mainly import substituting industries
- The sector has high imported raw materials and intermediate product content
- Mainly produce at excess capacity
- Mainly firms use unskilled and semi-skilled labor
- Limited linkages with other sectors of the economy.

8 X 1 = 8 marks

(b) **Factors which have influenced the development of the industrial sector in Uganda include;**

- Availability of raw materials
- Governments' policy on industrial development
- Availability of market
- Level of infrastructural development
- Size and quality of labour force
- Level of capital stock
- Availability of land or land tenure system
- Level of technology
- Entrepreneurial abilities or skills
- Political atmosphere
- Level of economic stability
- Level of accountability in the industrial sector

5 X 2 = 10 marks

6 (a) **Unemployment** according to J.M Keynes arises due to deficiency in effective or aggregate demand for goods especially in times of economic depression. *(02 marks)*

That is to say that due to low demand for final products, firms reduce their output, income levels fall, investment is discouraged and thus less capital and labour are employed. *(02 marks)*

(b) **Effects of unemployment in my country include;**

- Decline in the level of (acquired) skills
- Increases dependency burden
- Results into low production or low GDP hence low economic growth
- Low government revenue
- Worsens income and wealth inequalities
- Low aggregate demand for goods and services
- Leads to brain drain
- Increases levels of immorality or crime rates
- Increased or high government expenditure
- Social unrest or instabilities in families
- Under exploitation of productive resources hence waste
- Misery and low level tension or unrest

8 X 2 = 16 marks

- Discourages investment in education
 - Increases rural urban migration
- 7 (a) **A floating exchange rate** is one determined by the forces of demand and supply in the foreign exchange market. **(02 marks)**

While

A fixed exchange rate is one set or determined by a country's monetary authority. **(02 marks)**

(b) Merits of foreign exchange control in an economy includes the following;

- Ensures stability in value of the domestic currency
- Minimizes capital outflows
- Encourages investment
- Discourages speculation in foreign exchange market
- Encourages long term planning
- Ensures stability in incomes of exporters
- Importation of undesirable goods is minimized
- Improves a country's BOP position.

4X 2 = 8 marks

Demerits of foreign exchange control in an economy are as follows

- Reduces the volume and value of international trade
- Breeds black marketing in foreign exchange market
- It is expensive
- Discourages foreign investment
- Promotes retaliation in foreign trade
- Requires maintenance of large reserves
- Promotes corruption
- Causes delays in trade because it is bureaucratic

4X 2 = 8 marks

8. (a) **Principles of taxation include the following;**

- | | |
|-----------------------------|----------------------------------|
| - Equity | - Simplicity |
| - Certainty | - Neutrality or impartiality |
| - Convenience | - Diversity or comprehensiveness |
| - Economy or efficiency | - Consistency |
| - Productivity | |
| - Elasticity or flexibility | |

5X 2 = 10 marks

(b) Problems faced by tax authorities in Uganda.

- High level of tax evasion
- Shortage of skilled manpower
- Low taxable capacity
- Poor infrastructure
- High rate of corruption
- Political instability in some parts of the country
- Conflicting government objectives or policies
- Political interference
- Resistance from public against tax payment
- Difficulty in identifying taxable sources
- Frequent changes in employment, contacts and residence or large informal sector
- High level of tax avoidance
- Narrow tax base

10X 1 = 10 marks

SECTION A

1. (a) (i) Distinguish between **transfer earnings** and **transfer payments** (2 marks)
(ii) Mention any two examples of transfer payments in your country (2 marks)
- (b) (i) What is meant by a **Balanced growth strategy** of economic development (1 mark)
(ii) Outline the factors that limit the application of the balanced growth strategy in developing economies (3 marks)
- (c) State any **four** features of the agriculture sector in your country. (4 marks)
- (d) (i) Distinguish between **customs union** and **common market** (2 marks)
(ii) Give two benefits of economic integration in your country. (2 marks)
- (e) (i) Distinguish between **liquidity ratio** and **liquidity preference** (2 marks)
(ii) Give two reasons for high liquidity preference in developing countries. (2 marks)

SECTION B

2. (a) Distinguish between **location of an industry** and **localization of an industry** (4 marks)
(b) Assess the impact of localization of industries in your country (16 marks)
3. (a) Explain the role of capital in the development of my country (8 marks)
(b) Discuss the factors that influence capital accumulation in your country (12 marks)

4. (a) What is meant by **trade union** (2 marks)
(b) State the
(i) types of trade unions (10 marks)
(ii) Challenges faced by trade unions in your country (8 marks)
5. (a) Explain the causes of persistent balances of payment deficits in your country (10 marks)
(b) Suggest measures that should be taken to reduce B.O.P deficits in your country. (10 marks)
- 6 (a) Discuss the causes of unemployment in your country. (10 marks)
(b) What should be done to solve unemployment in your country? (10 marks)
- 7 (a) Explain the importance of taxes in your country (8 marks)
(b) Discuss the demerits of imposing taxes in your country (12 marks)

SECTION A

- 1 (a) (i) **Transfer earnings** – refers to the minimum or lowest payment to a factor of production to keep it in its current employment or use (and prevent it from shifting or transferring to the next best or on alternative use). *01 mark*

Whereas Transfer payments – refers to income received by an economic entity without anything given in return or, payment made to individuals without corresponding goods and or services rendered (i.e. they are non – quid pro quo payments). *01 mark*

(ii) **Examples of transfer payments in my country;**

- Grants or donations
- Pension
- Pocket money or up keep money given to a student
- Sick relief or benefits or allowance and other forms of relief
- Gift(s)

*Any 2 X 1
= 2 marks*

- (b) (i) **Balanced growth strategy** of economic development (according to Ragner Nurkes) advocates for harmonious and simultaneous development of or investment in all sectors of the economy so that they complement each other and grow in infusion or grow more or less at the same pace. *01 mark*

(ii) **Factors that limit the application of the balanced growth strategy in developing economies;**

- Limited labour skills
- Poor entrepreneurial ability or skills
- Low level of infrastructural development
- Poor production techniques / low levels of technology
- Small market size
- Conservation
- Poor land tenure system

*Any 3 X 1
= 3 marks*

- Poor political atmosphere
- Low level of accountability or corruption
- Weak planning machinery
- Limited capital
- Unfavourable government policy on investment on insufficient investment incentives
- Weak inter – sectoral linkages

(c) Features of the agriculture sector in my country.

- Highly dependent on family labour
- Mainly small scale
- Mainly rural based
- Mainly uses labour intensive technology
- Uses mainly unskilled and semi – skilled labour
- Mainly dependent on nature
- Dominated by subsistence production
- Mainly low quality of output produced quantity of output produced is generally low
- Production is mainly for the local market
- Mainly food stuffs or narrow range of cash crops produced
- Narrow range of production for export

- (d) (i) Customs union** is a form of economic integration in which member countries have free trade among themselves and common external barriers or tariffs.

01 mark

While **Common market** is a form of economic integration in which member states have free trade among themselves, common external trade barriers, free mobility of factors of production among themselves.

01 mark

(ii) Benefits of economic integration in my country.

- Trade creation effect
- Leads to specialization and its benefits
- Stimulates industrial development
- Avoids duplication of resources or goods

<p><i>Any 2 X 1</i> <i>= 2 marks</i></p>
--

- Leads to low average cost of joint research
- Attracts foreign resources
- Increased resource(s) utilization hence avoiding wastage
- Improves the bargaining position or power of the region internationally
- Strengthens political cooperation and understanding among member states
- Creation of employment opportunities
- Production of variety of goods hence widening consumer choices
- Leads to increased output hence economic growth
- Economies of scale are enjoyed by firms.
- Production of high quality output due to competition
- Increased provision of infrastructure at relatively low average cost to each member country
- Leads to creation of a wide market

(e) (i) **Liquidity ratio** – is the proportion or percentage of commercial bank (total) deposits that is / must be kept in cash and or near cash form. **01 mark**

While

Liquidity preference is the desire by individuals to hold assets or wealth in cash or near cash form (rather than investing it. **01 mark**

(ii) **Reasons for high liquidity preference in developing countries.**

- Low level of income
- High level of speculation
- High rates of inflation or high price level
- High level of cash transaction
- High degree of uncertainty
- Low level of development of commercial banks and other financial institutions
- Low interest rates on financial assets
- Limited knowledge of services provided by commercial banks
- Stringent requirement for opening bank accounts
- High level of illiteracy

<p><i>Any 2 X 1</i> <i>= 2 marks</i></p>
--

SECTION B

- 2 (a) **Location of an industry** – refers to a place or site or point at which an industry or firms producing related products is or are found or located or situated or established or set up. (02 marks)

While

Localization of an industry is the concentration of firms producing related products or an industry in areas or in order to reap or enjoy external economies of scale or reap advantages of the location.

(02 marks)

(b) Impact of localization of industries in Uganda.

Positive impact of localization of industries in my country

- Facilitates infrastructural development in the area
- Creation of more employment opportunities (in the area)
- Leads to cooperation of the industries in solving common problems
- Development of a pool of skilled labour
- Development of organized markets or expansion of market for products
- A wide variety of goods produced (in the area)
- Encourages (forward and backward) linkages
- Promotes development of auxiliary services in the area
- Leads to increased utilization of would be idle resources
- Promotes specialization and its advantages
- Leads to low prices of final products
- Increased revenue to government
- Increased reputation or popularity of an area
- Increased security of the area in the nation interest
- Increased quality of output due to competition
- Increased output hence economic growth

*Any 10 X 1
= 10 marks*

(ii) Negative impacts of localization.

- Leads to regional imbalance in development
- Results into rural urban migration and its negative consequences
- Over – strains infrastructures in the area
- Rise in costs of inputs

*Any 6 X 1
= 6 marks*

- Leads to problem of income inequality
- Quick depletion of resources in an area
- Increased cost of land or high rent rates
- Leads to environmental degradation or pollution (in the area)
- The economy becomes dependent on particular area which is risky or heavy losses to the economy in the event of a catastrophe in the area
- Displacement of people making many land less
- Increased cost of labour
- Leads to rising cost of living in the area.

3 (a) The role of capital in the development of my country;

- Increases resources utilization or facilitates optimum use of resources
- Promotes technological development (and technological transformation)
- Facilitates exchange therefore commercial production or monetises the economy
- Leads to increased output hence economic growth (i.e. it quickens the production process).
- Quickens production process or saves time
- Improves quality of final output
- Facilitates development of infrastructure
- Facilitates industrialization
- Creates employment opportunities
- Reduces economic dependence
- Improves labour skills
- Facilitates further capital accumulation, that is capital being used as collateral security for investment / increases the level of investment
- Increases efficiency or productivity of other factors of production
- Facilitates research
- Promotes specialization in production
- An engine of economic reforms

*Any 8 X 1
= 8 marks*

(b) Factors that influence capital accumulation in my country

- The level of income
- The rate of inflation
- The level of infrastructural development
- The entrepreneurial ability
- The existing capital stock or the availability of capital
- The political atmosphere or political climate
- The techniques of production
- The population growth rate
- The government policy on investment
- The level of monetization of the economy
- The land tenure system
- The market size
- The degree of accountability
- The interest rate on capital or loans
- Cultural factors or conservation
- The level of capital inflow and outflow / the net capital flow
- Consumption habits or time preference
- The level of savings

*Any 6 X 2
= 12 marks*

- 4 (a) **Trade union** – is an association of an organization formed by workers to collectively bargain for increased wages, improved conditions of work, improved skills of members etc. (02 marks)

Types or forms of trade unions

- Industrial unions
- Craft union
- White collar union
- General trade union
- Closed or open trade unions Examples such as NATU, MUASA etc

*Any 2 X 1
= 2 marks*

(b) Challenges faced by trade unions in my country.

- Limited funds
- High level of unemployment
- Limited leadership skills

*Any 3 X 2
= 6 marks*

- Low level of accountability disunity of members or poor organization of trade unions i.e. organized on the basis of tribe, religion and political affiliation
- Limited member skills
- Limited membership or low level of unionization
- Low demand for products produced by members
- Political interference (in union activities)
- Poor economic performance, i.e. low profitability of firms
- Poorly developed infrastructure or poor communication
- Apathy or ignorance of workers of their rights
- High proportion of wage bill to total costs
- Existence of transitory incomes or availability of alternative sources of income or limited commitment of members.

5 (a) **The causes of persistent balances of payment deficits in my country;**

- Low volume of exports
- Exportation of low quality products
- Exportation of mainly primary products or low prices of exports
- High propensity to import
- Political instability leading to high expenditure on importation of military hardware
- Importation of highly priced products
- High level of debt servicing or debt payments
- Heavy government expenditure abroad, for example on diplomacy or diplomatic missions.
- Trade restriction in export markets
- High level of profits and wages repatriation
- Market flooding or limited market for similar products abroad
- Prices of products or exports externally determined
- Low prices of exports
- Limited variety of exports

*Any 10X 1
=10 marks*

(b) **Measures that should be taken to reduce B.O.P deficits in my country.**

- Trade restrictions to discourage imports
- Promotion of import substitution (industrialization)

- Diversify export markets
- Increase volume of exports
- Diversification of exports
- Stabilization of the political atmosphere (to reduce huge expenditure on importation of military hardware)
- Man power development to reduce expenditure on experts
- Restructure foreign missions (and reduce foreign travels by government officials)
- Strengthen or join commodity agreements bargaining power in export markets
- Appeal for debt relief or debt conversion
- Process exports to increase value and prices
- Improve quality of exports
- Encourage depreciation of currency
- Negotiate for removal of trade restrictions on exports.

*Any 10X 1
=10 marks*

6. (a) Causes of unemployment in my country.

- Poor education system or poor manpower planning or limited skills
- Technological development (leading to substitution of labour with machines)
- Poor land tenure system
- Discrimination in the labour market on the basis of gender, race, religion, nationality, ethnicity etc
- Unfavourable change in climate or seasons
- High population growth rate
- Rural urban migration
- Poor political atmosphere
- Ignorance of labourers of existing employment opportunities
- Physical and mental incapacitation (leading to residual unemployment)
- Decline or unfavourable change in demand for products of some firms
- Retrenchment (in order to cut costs)
- Break down of industrial firms or break down in production firms
- Under developed infrastructure
- High degree of specialization of labour.

*Any 10X 1
=10 marks*

(b) Measure that should be taken to solve unemployment in my country.

- Develop infrastructures
- Diversify the economy
- (Further) liberalization of the economy
- Privatize public enterprises or assets or properties
- Control population growth rate
- Provide affordable credit for investment
- (through) reforming the education system or under take proper manpower planning
- Modernize the agriculture sector
- Encourage use of appropriate technology
- Advertisement of existing jobs
- Widen market, for example by joining economic integration
- Improve the political atmosphere
- Undertake special programmes for persons with special needs or persons with disabilities
- Further industrialization
- Provide (tax) incentives to investors
- Export surplus labour to other countries
- Reform(ing) the land tenure (system)

*Any 10X 1
=10 marks*

7 (a) Importance of taxes in my country;

- Means of acquiring public revenue
- Ensures equitable distribution of income
- Improving B.O.P position
- Means of protecting domestic producers or firms
- Ensuring proper resource allocation/influences investment
- Controls inflation
- Discourages production or consumption of demerit goods
- Influences the level of economic growth
- Controlling monopoly power
- Means of controlling dumping
- Encourage hard work and effort

*Any 8X 1
=8 marks*

(b) **Demerits of imposing taxes in my country**

- Discourages savings
- Encourages malpractices, for example, smuggling, corruption etc.
- Discourages effort and initiatives
- It is inflationary (the case with indirect taxes)
- Creates resentment of government that may erode her popularity or leads to unrest by tax payers or traders
- Limit the volume and benefit of trade or leads to retaliation in trade
- Leads to diversion of resources from highly taxed to at times non – productive activities that are less taxed or leads to misallocation of resources
- Reduces (consumer) welfare due to reduced consumption
- Leads to inefficiency of domestic (infant firms which are shielded from external competition
- Increases production costs leading to closure of some firms or reduced producer profits or unemployment due to closure of loss making firms
- Discourages investment
- Leads to income inequality.

*Any 6X2
=12 marks*

SECTION A

1. (a) (i) What is **Composite demand** (1 mark)
 (ii) Give any three examples of composite demand in your country (3 marks)
- (b) (i) Distinguish between **horizontal merging firms** and **vertical merging of firms** (2 marks)
 (ii) Mention any two reasons for the merging of firms in your country (2 marks)
- (c) State any **three** features of the informal sector in your country (4 marks)
- (d) (i) Distinguish between **economic dependence** and **economic interdependence** (2 marks)
 (ii) Outline any two forms of economic dependence in your country (2 marks)
- (e) (i) Define **trade union** (1 mark)
 (ii) Give any three methods used by trade unions to settle their grievances in your country. (3 marks)
- (f) (i) Distinguish between **oligopoly** and **duopoly** (2 marks)
 (ii) State any two advantages of oligopoly markets in your country (2 marks)
- (g) (i) What is meant by “**Credit multiplier**” (1 mark)
 (ii) Given that the initial deposit is shs. 10millions and the cash ratio is 20% calculate the Total credit created (3 marks)
- (h) (i) Define a **tariff** (1 mark)
 (ii) Outline three Non – tariff trade barriers in your country (3 marks)
- (i) (i) Distinguish between **capital gains tax** and **corporation tax** (2 marks)
 (ii) Give two demerits of corporation tax in your country (2 marks)
- (j) Mention any **four** forms of structural adjustment programmes (SAP) that have been implemented in your country (4 marks)

SECTION B

2. (a) Distinguish between **Gross domestic product** (GDP) and **Net National Produce** (NNP) (4 marks)
(b) Explain the factors that influence the level of national income in my country (16 marks)
3. (a) Describe the features of your country's industrial sector (10 marks)
(b) Explain the measures being taken to improve the industrial sector in your country (10 marks)
4. (a) Why it is necessary to compute consumer price indices in your country (10 marks)
(b) Explain the difficulties encountered when computing indices in your country (10 marks)
5. (a) Discuss the causes of inflation in your country (10 marks)
(b) Suggest steps that should be taken to curb down inflation in your country (10 marks)
6. (a) Describe the features of a good economic development plan. (6 marks)
(b) What are the Challenges faced during implementation of economic development plans in your country. (14 marks)
7. (a) Explain the role of the national budget in your country (10 marks)
(b) Account for the persistent budget deficit in your country (10 marks)
8. (a) Distinguish between **Privatization** (of public enterprises) and **Nationalization** (of private enterprises) (4 marks)
(b) Account for the privatization of public enterprises in your country (16 marks)

END

SECTION A

- 1 (a) (i) **Composite demand** is the (total) demand for a good with many uses or which can be used for more than one purpose. (01 mark)

(ii) **Any three examples of composite demand in my country;**

- The demand for electricity for lighting, ironing, cooking etc
- The demand for wool for cloth making, cushioning, cleaning etc
- For sugar (for baking, sweetening drinks, brewing etc)
- Timber for construction, furniture making, ornaments etc.)
- Iron and steel (for construction, furniture making, manufacturing etc)
- Skins and hides (for making shoes, bags, belts)
- Clay (for making pots, bricks, cups, stoves etc)
- Cloth – (for adornment, protection, warmth etc)
- An axe (for hewing / splitting, cutting, tool of defence or offence
- Water, money etc

Any 3 X 1
= 03 marks

(b) (i) **Horizontal merging firms** is the union or combination of two or more firms in the same industry and at the same level of production.

(1mark)

While

Vertical merging of firms – occurs when two or more firms in an industry but at different stages of production unite or combine into one production unit (e.g. a tea growing firm combining with a tea processing firm) or

The bringing under unified management the assets of two or more firms in an industry but at different stages of production (01 mark)

(ii) **Any two reasons for the merging of firms in my country;**

- To encourage efficiency or improve quality of output
- To reduce average cost of production to enjoy economies of scale or to increase profits.

Any 2 X 1
= 02 marks

- To attain monopoly power
- To effectively exploit available resources
- To minimize unnecessary duplication and wastes
- To increase output

(c) Features of the informal sector in Uganda are as follows;

- It is dominated by small scale firms
- Production is mainly for the domestic market
- Produces mainly consumer goods
- Produces mainly low quality output
- Uses mainly unskilled and semi – skilled labour
- Mainly uses simple production technique / mainly labour intensive
- Mainly uses local resources or inputs
- The sector is dominated by sole proprietorship
- Limited or no book keeping or poor or no record maintenance
- Mainly urban and sub – urban based
- Mainly low quantity of output produced or low productivity generally
- Limited government control of the firms or sector

*Any 4 X 1
= 04 marks*

- (d) (i) **Economic dependence** – refers to the reliance of an economy on other economies or sector for survival or development. **(01 mark)**

While

Economic interdependence – refers to a situation in which (two or more) economies rely on each other for mutual benefit of all.

(01 mark)

(ii) **Any two forms of economic dependence in my country;**

- External resource(s) dependence
- Direct economic dependence
- Trade dependence.

*Any 2 X 1
= 02 marks*

- (e) (i) **Trade union** an organization or association formed by worker with the primary objective of advocating for increased wages and improved conditions of work for (its) members. **(01 mark)**

(ii) **Any three methods used by trade unions to settle in my country.**

- Collective bargaining / round table discussion
- Go slow
- Go on strike the destructive method
- Sabotage or press or media wars or boycott or decampaigning (of the producer)
- Picketing
- Industrial arbitration or mediation
- Court action
- Demonstration
- Sit down strike

*Any 3 X 1
= 03 marks*

(f) (i) **Oligopoly** – an industry or a form of imperfect competition or a market situation in which there are few firms (of different sizes dealing in either differentiated or homogeneous products).

While Duopoly – a market situation or an industry or a form of imperfect competition or one in which there are (only) two firms.

(ii) **Any two advantages of oligopoly markets in my country;**

- Low prices to consumers
- Eases consumer budgeting due to price stability
- Widen consumer choices due to production of variety of goods
- Production of high quality goods due to competition
- Provide employment opportunities
- Develop infrastructures
- Contribute revenue to government
- Increased innovations due to competition
- Enables firms to enjoy abnormal profits
- Contributes to economic growth by increasing output
- Consumers benefit from non – price completion

*Any 2 X 1
= 01 marks*

(g) (i) **“Credit multiplier”** is the number of times by which an initial or a given bank deposit multiplies itself to generate a final change in deposits or.

The number of times initial deposit in a bank is multiplied to give total credit created or total deposits.
(01 marks)

(ii) **Total credit created** = initial deposit (in a bank) $\times \frac{1}{CR}$
(or $\times K$).

$$= \text{shs. } 10,000,000 \times \frac{1}{20} \quad (01 \text{ mark})$$

$$= \text{shs. } 10,000,000 \times \left(1 \times \frac{100}{20}\right)$$

$$= \text{shs. } 10,000,000 \times 5$$
$$= \text{shillings } 50,000,000 \quad (01 \text{ mark})$$

(h) (i) **Tariff** is a tax (imposed) on either imports or exports. (01 mark)

(ii) **Non – tariff trade barriers in my country include;**

- Administrative controls e.g. restrictive or tight bureaucratic processes
- Total ban or trade embargo
- Manipulation of exchange rates
- Subsidies to local industries
- Quality control measures
- Licensing
- Quota

*Any 3 X 1
= 03 marks*

(i) (i) **Capital gains tax** is a tax levied on (financial) assets whose values have increased from the time of their purchase to the time of their sale. (01 mark)

While

Corporation tax is a tax levied on profits of companies.

(01 mark)

(ii) **Demerits of corporation tax in my country**

- Discourages investments
- Hampers or ploughing back of capital
- Encourages tax avoidance
- Encourages resentment

*Any 2 X 1
= 02 marks*

- Encourages tax evasion
- Discourages innovations

(j) **Any four forms of structural adjustment programmes (SAP) that have been implemented in my country;**

- Privatization or expanding the role of the private sector
- Liberalization (of trade or economy)
- Restructuring of the public service or demobilization of workers or soldiers
- Reduction of government expenditure (on non – essential series / cost sharing)
- Devaluation
- Tightening of monetary and credit policies
- Restructuring of tax administration or system

*Any 4 X 1
= 04 marks*

SECTION B

- 2 (a) **Gross domestic product (GDP)** – the monetary value of all final good and services produced within a country (by both nationals and foreigners) during a given time or year. It includes (the value of) depreciation) *(02 marks)*

While

Net National Produce (NNP) refers to the money value of all (final) goods and services produced by citizens of a country (both at home and abroad) during a given period of time; it excludes depreciation. *(02 mark)*

(b) **The factors that influence the level of national income in my country are;**

- The entrepreneurial ability
- The existing stock of capital
- The techniques of production
- The labour skills
- The level of infrastructural development
- The market size
- The investment climate or atmosphere / the availability of investment incentives,
- The land tenure system

*Any 8 X 2
= 16 marks*

- The price stability or the rate of inflation or the economic stability
- The political atmosphere or climate
- The level of monetization of the economy or size of subsistence sector
- The population growth rate
- The level of savings
- The level of accountability
- The degree or level of conservation
- Attitude to work
- The level of exploitation of natural resources

*Any 8 X 2
= 16 marks*

3 (a) A description of the features of the industrial sector in my country;

- Mainly small scale
- Mainly urban based
- Mainly labour intensive techniques of production used
- Mainly unskilled and semi – skilled labour employed
- Production of mainly low quality (manufactured) goods
- Mainly privately owned
- Basically import – substituting industries / production is mainly for the domestic market
- High component of imported raw materials and intermediate products
- Limited linkage with other sectors of the economy
- Mainly comprises of processing industries
- Production of mainly consumer goods
- Durable consumer goods, industries are mainly assembly plants
- Many are agro based.

*Any 10 X 1
= 10 marks*

(b) Measures being taken to improve the industrial sector in my country;

- Developing infrastructures
- Widening markets
- Providing affordable capital for investment or industrialisation
- Stabilizing the political atmosphere or climate
- Providing (tax) incentives or improvement of investment climate

*Any 10 X 1
= 10 marks*

- Vocationalizing education or provision of labour with skills
- Encouragement of savings
- Liberalizing the economy
- Improving the land tenure system
- Fighting corruption
- Stabilizing prices
- Modernizing agriculture or developing cheaper sources for the supply of materials or creating linkages with other sectors
- Improving entrepreneurship (skill)
- Privatization of public assets / enterprises
- Improving techniques of production technological development or transfer
- Strengthening specialized institutions to improve performance of the sector
- International campaigns to attract investors,

4 (a) Why it is necessary to compute consumer price indices in my country;

- Measuring changes in the value of money or determining the level of inflation or deflation
- To assist in wage determination
- Deflation or adjustment of (nominal) national income figures to give real national income.
- Comparison / determination of cost of living
- For determination tax rates or levels

*Any 4 X 2
= 8 marks*

(b) Difficulties encountered when computing indices in my country;

- Difficulty in getting a suitable base year
- Difficulty in selecting a basket of goods and services
- Difficulty in attaching weights to goods and services (in the basket)
- Changes in the level of prices over time or price instability
- Limited data or limited information
- Changes in tastes and preferences
- Emergence of new goods and exit of old ones

Any 6 X 2=12 marks

- Absence of standard weights (i.e. products sold in tins, heaps, buckets etc.)
- Absence of standard prices (due to use of bargaining in price determination)
- Variation in prices in different areas or regions
- Limited personnel with appropriate skills needed for compiling relevant information
- Limited facilities

5 (a) The causes of inflation in my country, explanations;

- Rising production costs e.g. rising wages, interest rates, fuel prices
- Natural hazards (leading to fall in supply from agriculture sector)
- Break down of infrastructures
- Political instability (that destroys productive infrastructures)
- Importation of goods from countries experiencing inflation
- Increased inflow of income from abroad
- Greed for profits (by traders)
- Speculation (by traders and consumers)
- Excessive issuance of currency
- Excessive government expenditure
- Declining value of the local currency relative to other currencies
- Excessive exportation of essential goods or increased demand for exports
- Excessive or uncontrolled credit creation
- Excessive borrowing from the central bank
- Reducing indirect taxes on essential goods
- Control exports of some goods
- Under take import substitution

*Any 10 X 1
= 10 marks*

(b) The steps that should be taken to curb down inflation in my country include

- Increase direct taxes
- Reduce government expenditure (on provision of non essential goods)

- Liberalisation of the economy/liberalise the economy
- Provide tax incentives to investors/improve investment climate
- Develop infrastructure
- Use of contractionary/restrictive monetary policy e.g. sale of government securities
- Control issuance of currency
- Modernise agriculture
- Further privatisation
- Encourage importation from cheaper sources
- Encourage the use of credit instruments
- Improve political climate
- Reduce government borrowing from the central bank
- Reduce indirect taxes on essential goods
- Control exportation of some goods
- Undertake import substitution strategy

*Any 10 X 1
= 10 marks*

6 (a) The features of a good economic development plan.

A good economic development plan should be / is / has....

- Comprehensive
- Consistent
- Sequenced
- An element of compatibility
- Economically feasible
- Has an element of proportionality in the allocation of resources
- Have an element of continuity
- Optimality in the use of resources
- It should be politically acceptable
- It should be socially relevant
- Internationally relevant.

*Any 6 X 1
= 6 marks*

(b) Challenges faced during implementation of economic development plans in my country.

- Inadequate funds
- Limited data or information
- Non – responsive (growing) private sector
- Natural calamities

*Any 7 X 2
= 7 marks*

- Limited will by the people or conservatism or limited political will
- Political instability
- Inefficient implementation or administrative machinery or limited labour skills
- Interference by politicians or government
- Plans being too ambitious i.e. far beyond means
- Corruption on the part of plan implementers
- High inflation rates
- Dependence on foreign aid which is inadequate, uncertain, inconsistent,
- Poorly developed infrastructure.

7 (a) Explanations of the role of the national budget in my country

- Creation of employment opportunities or to reduce unemployment
- Controls inflation or attain and maintaining price stability or as a correcting tool during inflationary periods
- Improves balance of payment position or correction of BOP deficits
- Protection of infant industries or firms
- Reduces income inequality or promotion of equitable income distribution
- Discourage consumption of harmful or demerit or undesirable products
- Raise revenue for government or helps government to mobilize funds
- Influences investment or influences resources allocation
- Accelerates the rate of economic growth
- Used to create balance in regional development or to reduce regional imbalance in development
- Reduction of economic dependence
- Regulation of government expenditure
- Management of the public debt
- Mobilization of the masses

*Any 8 X 1
= 8 marks*

(b) An account for the persistent budget deficit in my country

- Rising or high costs of infrastructural development
- Frequency of natural disasters or hazards that require heavy emergency funding
- High levels of corruption or embezzlement of public funds or low levels of accountability
- Heavy expenditure on defences due to political instability or low revenue due to political instability
- Limited non – tax sources of revenue or low revenue from non tax
- Heavy expenditure on civil servants and politicians
- Persistent or heavy debt servicing and repayment of principle
- Heavy expenditure on external commitments e.g. contributions to internal organizations
- Cover ambitious planning
- Few tax bases or narrow tax base
- Weak tax administration
- Low taxable capacity

*Any 6 X 2
= 12 marks*

8 (a) **Privatization** (of public enterprises) is the transfer of ownership of state enterprises or public sector firms or public owned firms to individuals or private sector or private investors. (02 marks)

While

Nationalization (of private enterprises) – refers to the taking over by the state of the ownership, control and management of enterprises (formerly) privately owned. (02 marks)

(b) An account for the privatization of public enterprise's in my country;

- To enable firms to operate more efficiency
- To reduce corruption tendencies which are rampant in state enterprises
- To attract foreign investment
- To reduce government expenditure on subsidization or running the enterprises
- To meet I.M.F conditionality of creating a private sector led economy

- To encourage competition hence improved quality of output
- To create more employment opportunities (in the long run)
- To expand tax base or to raise revenue for government through sale of the enterprises
- To improve or increase the level of resources utilization
- To reduce bureaucratic tendencies and resultant negative effects
- To encourage creativity or innovations
- To allow government to concentrate on provision of social services
- To improve BOP position (by reducing imports and increasing exports)
- To control (structural) inflation
- To increase output hence economic growth.

Any 8 X 2
= 16 marks

SECTION A

- I. (a) (i) What is meant by the **price discrimination**? (01 mark)
 (ii) State three necessary conditions for price discrimination to succeed. (03 marks)
- (b) (i) Define the term **marginal propensity to save**. (02 mark)
- (ii) Given that: the current level of Gross Domestic Product is 300 billion shillings, the increase in national investment expenditure is 50 million shillings and the marginal propensity to save is 0.2; Calculate the final level of national income. (2 marks)
- (c) Explain the meaning of the following terms:
 - (i) **Marginal Utility income** (02 marks)
 - (ii) **Marginal rate of substitution**. (02 marks)
- (d) What is meant by **development goal**? (01 mark)
- (e) (i) Define the term **labour force**. (01 mark)
 (ii) Mention any three factors which determine the size of the labour force in an economy. (03 marks)
- (f) (i) What is meant by **liquidity preference**? (01 marks)
 (ii) Mention three factors which determine liquidity preference in an economy. (03 marks)
- (g) (i) Define the term **retail price index**. (01 mark)
 (ii) Give any three uses of price indices. (03 marks)
- (h) (i) Distinguish between **deflation** and **reflation**. (02 marks)
 (ii) Mention any two instruments of reflationary policy. (02 marks)
- (i) (i) Distinguish between **proportional tax** and a **progressive tax**. (02 marks)
 (ii) State any two merits of progressive taxes. (02 marks)
- (j) (i) Distinguish between **nationalization** and **privatization** of enterprises. (02 marks)
 (ii) Give any two merits of nationalization of enterprises in an economy. (02 marks)

SECTION B: (60 MARKS)

2. Study the supply schedule and answer the questions which follow.

Commodities	A	B	C	D
Price of maize	10	20	30	40
Quantity	50	100	150	200

- (a) (i) Draw a supply curve using the information in the schedule. (02 marks)
- (ii) Calculate the price elasticity of supply for the commodity from in an economy. (02 marks)
- (b) Examine the factors that influence the quantity of a commodity supplied in an economy. (16 marks)
3. (a) Distinguish between **cost of living** and **standard of living**. (04 marks)
- (b) Explain the factors that influence people's standards of living in an economy. (16 marks)
4. (a) What is meant by the term **underdevelopment**? (04 marks)
- (b) Explain the causes of underdevelopment in the third World countries. (16 marks)
5. (a) How are profits maximized in a perfect competition market in the short run? (08 marks)
- (b) Examine the advantages and disadvantages of a perfectly competitive market. (12 marks)
6. (a) Assess the role of taxation in your country. (08 marks)
- (b) How can the current taxation system in your country be improved? (12 marks)
7. (a) Differentiate between a **surplus budget** and a **deficit budget**. (04 marks)
- (b) How does a government finance a deficit budget? (16 marks)
8. (a) Distinguish between a **customs union** and **common market**. (04 marks)
- (b) Explain the factors which limit economic integration among developing countries. (16 marks)

END

SECTION A

1. (a) (i) **Price discrimination** refers to a situation where a producer or monopolist charges different prices for a similar or some commodity to different groups of consumers. (01 mark)
- (ii) **Three necessary conditions for price discrimination to succeed**
- Geographical separation of markets
 - Different price elasticity of demand at each price level in different markets
 - The producer must be a monopolist or there must be one producer of the commodity or no close substitute
 - The marginal revenue in both markets should be the same
 - High cost of transferring a commodity from one market to another by a consumer
 - Low cost of separating markets by the producer
 - Personal services which cannot be transferred from one person to another e.g. medical services
 - The consumer must be ignorant about existence of other cheaper markets
 - Where goods are sold on special order
 - No government interference in the market
- Any 3 X 1*
= 03 marks
- (b) (i) **Marginal propensity to save** refers to the proportion or fraction or percentage of an increase in income that is saved. (1 mark)
- Or
- Marginal propensity to save** is the ratio of the change in savings to change in income. (01 mark)

(ii)

Given that GDP= 300M

$$=50M$$

$$=0.2$$

$$K= 1/MPS.....1mk \text{ OR } \Delta Y = \frac{\Delta I}{MPS}$$

$$= 1/0.2 = 5 \text{ times}$$

$$\Delta Y = 5 \times 50m/=$$

$$=250m/=.....1mk$$

$$FY= OY+\Delta Y$$

$$=250m/= + 300m/=$$

$$= 550m/=.....1mk$$

(c) (i) **Marginal utility of income** is the additional satisfaction obtained from the expenditure of an additional unit of income. **(02 marks)**

(ii) **Marginal rate of substitution** is the amount of one commodity a consumer could give up to get one more unit of another commodity while leaving the level of satisfaction unchanged.

(d) (i) **A development goal** is a target or objective, economic, social or political to be achieved in a specified period of time. **(1 mark)**

Or It is the intended growth and development objectives a country aims at achieving in a given period of time. **(01 mark)**

(ii) **Three economic development goals in Uganda:-**

- Achieving a high rate of growth of GDP and Y/C
- Achieving full employment
- Reducing poverty, disease and ignorance
- Achieving favourable balance of trade terms of trade and balance of payments position
- Creating fairer distribution of income and wealth
- Building an independent, self – sustaining economy
- Reduction in all firms dependence
- Achieving price stability or reducing inflation

<i>Any 3 X 1 = 03 marks</i>

(e) (i) **Labour force** refers to the total number of workers available for employment in a country.

It comprises the working age, both employed and unemployed. (01 mark)

(ii) **Factors which influence labour force**

- Size of the population
- Age composition of the population
- Sex composition of the population
- Rate of migration
- Minimum age for one to work established by the law or legal retirement age
- Period of training

*Any 3 X 1
= 03 marks*

(f) (i) **Liquidity preference** is the desire to hold wealth or assets in cash or near cash form. (01 mark)

(ii) **Three factors which determine liquidity preference**

- Interest rates or bank rates
- Price levels
- Investment climate e.g. government policies
- Level of transactions
- Degree of uncertainty
- Income levels
- Knowledge of banking facilities
- Level of infrastructural development

*Any 3 X 1
= 03 marks*

(g) (i) **The term retail price index** refers to the measurement of the relative change in consumer prices over time. (01 mark)

(ii) **Uses of price indices**

- They help in measuring changes in the value of money or changes in prices of goods.
- They help in determining wages or pension
- Help in determining tax rates
- Help in determining the real national income figures or used to deflate national income

*Any 3 X 1
= 03 marks*

- Used in comparison of the cost of living or standard of living over time
- Help in measuring terms of trade.

(h) (i) **Deflation** refers to persistent decrease in prices of goods and services in a country. (01 mark)

Whereas

Reflation refers to a deliberate government policy to force prices upwards to recover from a depression. (1 mark)

(ii) **Instruments of Reflationary policy**

- Tax reduction
- Increase in government expenditure or subsidisation
- Encouraging exports
- Use of expansionary monetary policy
- Increase in wages

*Any 2 X 1
= 02 marks*

(j) (i) **A proportional tax** is where the rate of tax is constant for all tax payers regardless of the level of income. (01 mark)

Whereas A progressive tax is where the rate of tax increases as one's income increase. (01 mark)

(ii) **Two merits of progressive taxes**

- They yield high tax revenue to government
- Equitable distribution of income
- Favour low income earners
- Help to fight demand pull inflation

*Any 2 X 1
= 02 marks*

(b) (i) **Nationalisation** refers to where the state takes over an enterprise to be run in public interest. The state owns, controls and manages the enterprise. (01 mark)

whereas

Privatization is the transfer of enterprises from the public to the private sector. (01 mark)

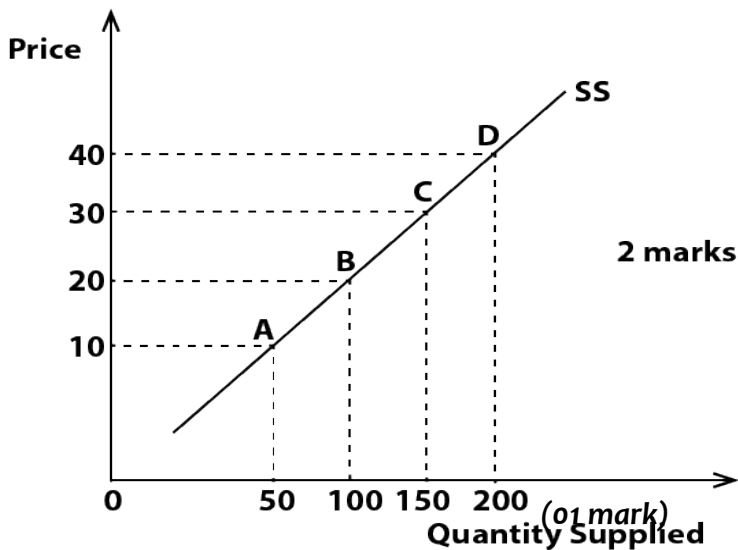
(ii) Merits of nationalization

- Adjustment to changing market conditions may be quick
- Helps in provision of essential goods
- Reduction in social costs e.g. pollution, depletion
- Easy to mobilise large amounts of capital
- Indigenization of the economy or reduction in foreign dominance
- Ensures government control of strategic sector of the economy
- It ensures increased employment

*Any 2 X 1
= 02 marks*

SECTION B

2. (a) (i) The supply curve



$$\text{From A to D} = \frac{200 - 50 \times 100}{50} = \frac{40 - 10}{10} \times 10$$

$$= \frac{300}{300} = 1$$

$$= \text{PES} = \frac{\Delta Q_{ss}}{\Delta P} \times \frac{P}{Q} = \frac{150}{30} \times \frac{10}{50}$$

$$= \frac{5}{5} = 1 \text{ answer}$$

(b) Factors that influence the quantity of a commodity supplied

- Price of the commodity
- Prices of other commodities
- Prices and availability of factors of production
- Goals or objectives of the firm
- State of technology
- Natural factors e.g. climate and weather
- Working conditions
- Government policy – taxation and subsidization
- Number of producers
- Degree of freedom of entry of firms in production
- The level of demand for the product
- Gestation period
- Awareness of market conditions
- Political climate
- Future expectations

*Any 8 X 2
= 16 marks*

3. (a) **Cost of living** refers to the amount of money required by an individual to sustain lifestyle accustomed to; (02 mark)

While

Standard of living is the condition of life style in which people live or hope to live.

Or

It is the measure of the level of human or social and economic welfare of an individual or society as represented by the basket of goods consumed.

(b) Factors that influence peoples' standard of living

- The general price level in the economy
- Nature of income distribution
- Level of income
- Level of education and skills
- Nature of goods produced – capital goods or consumer goods
- Quality of social amenities or level of development of infrastructure or nature of government expenditure
- Political climate
- Quality of goods produced
- Level of employment in the country
- Degree of political freedom
- Level s of environmental pollution
- Availability of time for leisure.

*Any 8 X 2
= 16 marks*

4. **(a) Under development** is a situation where there is underutilization of resources and low standards of living characterized by poverty, low rate of economic growth, low level of technology, low productivity, low consumption level etc. (04marks)

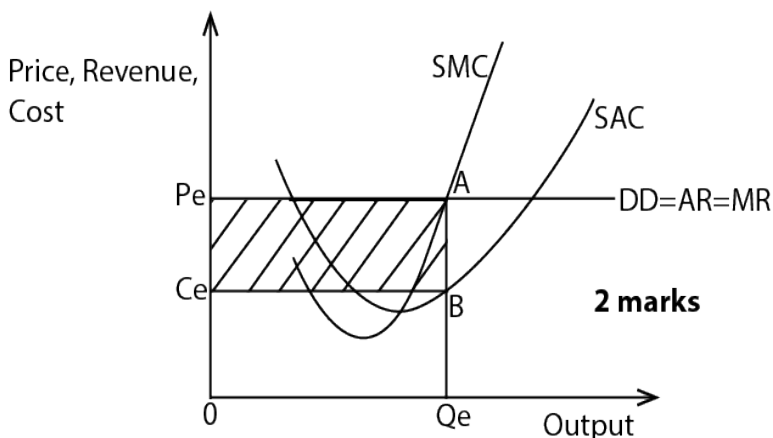
(b) Causes of under development

- High population growth rates
- Low income levels or poverty vicious code of power
- High levels of unemployment and underemployment
- High income inequality
- High illiteracy levels or limited skills or poor education
- High level of dependence on subsistence production
- Poor terms of trade
- Cultural factors e.g. conservation
- Foreign interference or neo – colonialism
- Brian drain
- Narrow foreign and domestic markets
- Poor land tenure system
- Poor infrastructure
- Low level of technological development
- Economic mismanagement and corruption

*Any 16 X 1
= 16 marks*

- Natural hazards or environmental factors
- Heavy debt servicing burden due to over dependence on foreign aid
- Profit or income repatriation
- High rates of inflation or economic disturbances
- Limited basic natural resource e.g. minerals
- Political instability
- Limited entrepreneurial ability

5. (a) In a perfect competition market in the short run, profits are maximized where $MC = MR$ as shown below. (02 marks)



- The price is determined where the output line meets the AR / Demand curve at point X. (01 mark)
- The firm earns abnormal / supernormal profits represented by rectangle PXYX. (01 mark)
- Average revenue (AR) is greater than average cost (AC) (2 marks)

(b) Advantages of a perfectly competitive market

- There is efficient allocation of resources in the long run or full utilization of resources
- It provides an efficient standard or convenient measuring rod for comparison of price determination in other markets
- It ensures fair and stable prices in the market

Any 3 X 2
= 6 marks

- It ensures equitable distribution of incomes because of the many firms
- It ensures increased output because of large number of firms
- There is no wastage of resources or funds in advertising that would increase prices.

Disadvantages of a perfectly competitive market

- It assumes certain ideal market situations that do not exist in real life
- It cannot eliminate natural monopolies and business ownership of capital
- Low profit levels because normal profits limit research and innovations
- Lack of economies of scale or limited expansion
- Limited choice of commodities for consumers or lack of varieties
- It may lead to unemployment in the long run
- Since inefficient firms are pushed out of production
- Duplication of services or economic activities hence wastage of resources

Any 3 X 2 = 6 marks

6. (a) Role of taxation in an economy

- Means of acquiring public revenue
- Equitable distribution of income
- Improve or maintain balance of payments position
- Influence resource allocation
- Protect domestic firms or discouraging dumping
- Discourage production and or consumption of demerit goods
- Control inflation
- Regulate or controlling monopoly powers
- Influence the level of economic growth

Any 4 X 1 = 4 marks

Negative roles

- Discourage investment
- Discourage savings
- Reduce welfare due to reduced consumption
- Discourage effort and initiative
- Encourage illegal activities e.g. smuggling
- Indirect taxes are inflationary

Any 4 X 1 = 4 marks

- Resource diversion from highly taxed activity to sometimes non – productive ventures
- Creates resentment that may erode popularity of a government
- Reduces the volume and thus benefits of trade
- Regressive taxation widens income inequality

(b) Ways of improving the current tax system

- Reduce or eliminate corruption
- Sensitize the masses on the role of taxation
- Develop a tax payer friendly system of collection
- Adopt principle of equity or fair assessment
- Building up infrastructure
- Using trained personnel to assess and collect taxes or training personnel
- Proper and effective use of taxes
- Improved implementation of the tax laws
- Ensuring political stability
- Widening the tax base hence introducing new taxes.

*Any 6 X 2
= 12 marks*

7. **(a) A surplus budget** is where government planned expenditure is less than government planned revenue. ($E < R$) (02 marks)

Where as

A deficit budget where government planned expenditure is greater than the government planned revenue ($E > R$). (02 marks)

(b) How government finances a deficit budget

- Borrowing from the central bank or printing of more money
- Borrowing from external sources
- Donations or grants
- Sale of government securities or borrowing from the public
- Use of foreign reserves
- Sale of government enterprises to raise revenue or disinvestment
- Use of profits from government commercial ventures
- Compulsory savings
- Levying special taxes e.g. Capital levy on the very rich people
- National lottery or gambling.

*Any 8 X 2
= 16 marks*

8. (a) **A customs union** is where after the formation of an economic integration, member states abolish individual tariff structures and establish a common external tariff structure against non – member countries. (02 marks)

Whereas

A common market is where there is free movement of factors of production within the union i.e. labour, capital and entrepreneurship. (02 marks)

(b) Factors which limit economic integration among LDCs

- They tend to produce similar good or limited market
- Failure to share benefits equally
- Fear of loss of customs revenue
- Political instability
- Differences in economic policies
- Differences in the levels of development
- Differences in social factors e.g. culture, religion / language
- Conflicts among leaders
- Differences in currencies
- Differences in political ideologies
- External influence or interference
- Poor infrastructure among countries
- Lack of political will or support
- Limited proximity.

<i>Any 8 X 2 = 16 marks</i>

SECTION A

- 1 (a) (i) Given that an increase in the price of commodity X from shs 1500 to shs 1800 resulted into a change in quantity demanded for commodity Y from 600 units to 570 units; calculate the cross elasticity of demand (02 marks)
- (ii) State the relationship between commodities X and Y (02 marks)
- (b) (i) What is meant by a **mixed economy**? (01 mark)
- (ii) Give any three merits of a mixed economy. (03 marks)
- (c) (i) Distinguish average product and marginal product (02 marks)
- (ii) State any two factors that may lead to an increase in marginal product of labour (02 marks)
- (d) (i) State **Irving Fisher's equation of exchange** (02 marks)
- (ii) How is the value of money determined in Fisher's equation of exchange? (02 marks)
- (e) (i) Define the term **regressive tax** (01 mark)
- (ii) State any three effects of regressive taxes in an economy (03 marks)

SECTION B (80 MARKS)

- 2 (a) State the **Malthusian population theory** (04 marks)
- (b) Explain five ways in which the Malthusian population theory is relevant to developing countries (10 marks)
- (c) State six limitations of the theory (06 marks)
- 3 (a) Why do prices of agricultural products fluctuate? (10 marks)
- (b) What are the effects of agricultural price fluctuations on an economy? (10 marks)
- 4 (a) Explain the differences and similarities between pure monopoly and monopolistic competitive markets (14 marks)
- (b) How does the existence of monopolistic competitive markets affect producers in your country? (06 marks)
- 5 (a) What are the features of an economic union? (06 marks)
- (b) Explain the factors that limit regional economic integration among the developing countries (14 marks)
- 6 (a) What is meant by **centralized planning**? (04 marks)
- (b) Explain the rationale for centralized planning in an economy.
- 7 (a) Define the term **nationalization** of enterprises (04 marks)
- (b) Examine the merits and demerits of nationalization of enterprises in an economy. (16 marks)

1 (a) (i) C.E.D = $\frac{\% \text{ age } \Delta \text{ in quantity demanded of Y}}{\% \text{ age } \Delta \text{ in price of X}}$ (01 mark)

OR

$$\text{C.E.D} = \frac{\Delta Q_Y}{\Delta P_X} \times \frac{P_x}{Q_y} \dots\dots\dots 1 \text{ mark}$$

$$\text{C.E.D} = \frac{570 - 600}{1800 - 1500} \times \frac{1500}{600}$$

$$= \frac{-30}{300} \times \frac{1500}{600}$$

$$= -0.25 \text{ Or } = \frac{1}{4} \dots\dots\dots 1 \text{ mark}$$

(ii) Commodities X and Y are complements... (01 mark)

(b) (i) **A mixed economy** is one where the resources are owned and controlled by both the state (central authority or public) and the private sector market forces of demand and supply). (01 mark)

(ii) **Three merits of a mixed economy are;**

Any 3 X 1 = 3 marks

- Limited resource wastage due to regulated competition.
- Better quality products are produced because of competition between the private and public sectors
- Production of a wide variety of products by both the private and public sectors
- Reduced income inequalities due to state control of resources.
- It increases employment opportunities both the private and public sectors
- The public sector provides essential services that the private sector would not provide.
- There is economic stability due to government intervention.

- (c) (i) **Average product** is the output produced per unit of a variable factor employed e.g. labour. (01 mark)

While

Marginal product is the change in total output resulting from employing an additional unit of a factor input e.g. labour.

OR

Marginal product is the additional output produced by an additional unit of a factor employed e.g. labour. (01 mark)

- (ii) **Two factors that may lead to increase in marginal product of labour are;**

- Increase in the wage rate
- Improvement in technology
- Increase in the level of education or training or skills
- Improvement in the quality of management and supervision
- Increase in the availability and quality of co-operant factors
- Improvement in the working conditions
- Improvement in attitude of labour towards work
- Increase in the level of specialization and division of labour
- Improvement in political climate
- Increased experience or expertise
- Improvement in health conditions of the worker.

Any 2 X 1
= 2 marks

- (d) (i) $MV = PT$ OR $P = \frac{MV}{T}$ 1 mark

Where, M= Amount of money in circulation

V= Velocity of circulation of money

T= level of transactions/volume of production

P= General price level/Average price 1mk

- (ii) **The value of money is determined basing on the following factors:**

- The quantity of money in circulation
- The velocity of circulation of money
- The level of transactions/Volume of production
- The price level

Any 2 X 1
= 2 marks

- (e) (i) **A regressive tax** is one whose rate falls/ reduces as income (spending power) increases i.e. it takes a higher proportion of income of low income earners than high income earners

*Any 3 X 1
= 3 marks*

(ii) **The following are effects of a regressive tax**

- They promote savings and investment among the rich
- They encourage hard work among the poor
- They widen income gap between the poor and the rich
- They limit consumption of mass consumer goods/ reduce standard of living among the poor
- Low revenue is realised by the government
- They discourage savings and investment among the low income earners
- They lead to social unrest/political discontent
- They encourage tax evasion and avoidance among the poor

SECTION B

- 2 (a) **Malthusian population** theory states that whereas population grows at a geometric rate **(1 mark)**, food production tended to grow at an arithmetic rate. **(01 mark)** Malthus stated that due to the above trend, population growth after a time would outstrip food production (population trap). **(01 mark)**, and after such a time, there was need for control population growth through preventive (negative) checks like moral restraint, celibacy etc. otherwise positive checks like persistence, wars, diseases etc **(1 mark)** would serve to reduce the population.

(b) Five ways in which the theory is relevant to LDC's:

- Land supply being fixed and subject to the law of diminishing returns is what is being experienced and he envisaged this situation.
- Natural family planning methods or control measures like celibacy are being used; these control measures are his initiation or negative checks.
- The positive checks on population exist in LDCs e.g. wars.

- Land problems or disputes are common issues in LDCs
- Some areas of LDCs are facing food shortage or famine
- Existence of a subsistence sector which is still large in LDCs.

*Any 5 X 2
= 10 marks*

(c) Six limitations of Malthusian population theory;

- It assumes constant technology which is unrealistic since technology is ever changing or technological progress occurs.
- It assumes a closed economy, yet economies of most LDCs are open economies or ignored the role of international trade.
- Agricultural modernization is not foreseen by the theory yet this is taking place in most LDCs.
- Failure of the theory to visualize labour mobility
- Population growth does not depend on food alone
- The theory is based on the subsistence economy yet LDCs' economies are not predominantly subsistence any longer.
- The theory did not foresee great improvement in transport
- It did not foresee the possibility of getting foreign aid / resources from other countries
- There is no mathematical relation that regards growth in food and population
- The theory ignored the deliberate and scientific method of birth control or modern family planning methods.
- It did not realize that rising living standards can cause a fall in birth rates and population
- It ignored the possibility of emigration to ease pressure on resources.
- Malthus was influenced by the law of diminishing returns which is not always true.

*Any 6 X 1
= 6 marks*

3 (a) Reasons why prices of agricultural products fluctuate;

- Long gestation period
- Heavy dependence on nature / natural factors
- Perishability of agricultural products or storage problems
- Low price elasticity of demand (inelastic demand) for agriculture products.
- Bulkiness of agricultural products thus transport problems

- Low income elasticity of demand for agricultural products
- Weak bargaining position of LDCs on the world market or external determination of prices.
- High competition from synthetic or artificial fibres
- Poor surplus disposal system or machinery e.g. poor infrastructure
- Divergence between planned and actual output levels
- Agricultural products forming minor inputs in industrial sector
- Raw material saving technology by major consumers
- High competition among agricultural producers or many producers making planning difficult.
- Lack of cooperation among producers of agricultural products
- Changes in the costs of production

*Any 10 X 1
= 10 marks*

(b) Effects of agricultural price fluctuations on an economy.

- Unstable or fluctuating terms of trade
- Unstable export earnings
- Balance of payments instabilities
- Planning is made difficult
- Fluctuation in government revenue
- Unstable incomes of farmers or agricultural producers
- Fluctuation in employment levels or unemployment e.g. seasonal unemployment
- It worsens income inequalities
- Investment in agriculture becomes uncertain and this causes speculation and thus irrational use of land
- Leads to rural – urban migration with its negative consequences
- It leads to instability in exchange rates
- Farmers get frustrated or discouraged.

*Any 10 X 1
= 10 marks*

4 (a) Differences and similarities between pure monopoly and monopolistic competitive markets.

- In pure monopoly, there is only one producer or seller or firm while in monopolistic competitive markets, there many producers i.e. no competition in pure monopoly while competition exists in monopolistic competition.

*Any 4 X 2
= 8 marks*

- In a pure monopoly market, entry is blocked while that of monopolistic competitive market is free i.e. free entry and exit
- In pure monopoly market, there is no (persuasive) advertisement while in monopolistic competitive market, there is persuasive advertisement
- The demand or average revenue curve in pure monopoly is inelastic while that of monopolistic competitive market is elastic
- In pure monopoly market one product or without substitutes is produced while in monopolistic competitive markets, firms produce differentiated products
- In the long run, pure monopoly firms earn abnormal profits while those under monopolistic competitive markets earn normal profits
- In pure monopoly, a firm practices price discrimination which is not the case with firms under monopolistic competitive markets.

Similarities

- Existence of excess capacity in both markets
- The producers or sellers or firms in both market situations are price makers
- The demand or AR curves in both markets are downwards sloping from the left to the right.
- The firms in both market situations earn abnormal profits in the short run or incurs losses.
- Both markets attain equilibrium output at a point where $P = AR$ but greater than $MR = MC$
- In both market situations, there are many buyers.

*Any 3 X2
= 6 marks*

(b) How existence of monopolistic competitive markets affect producers in Uganda.

- It leads to wastage of resources due to duplication of services or activities
- They carry out competitive advertisement which leads to high operational costs
- Production at excess capacity, thus underutilization of resources.
- The firms / producers earn normal profits in the long run, which limits expansion of operations.

- Existence of stiff competition leads to collapse of small or inefficient firms.
- Firms earn abnormal profits in the short run which can be ploughed back or used for expansion.
- Existence of competition leads to production of high quality products i.e. improved innovation and invention.
- The firms are price makers because of having monopoly over their brands.
- Persuasive advertisement enables firms to expand market for their products.

*Any 6 X1
= 6 marks*

5 (a) Features of an economic union

- Free movement of goods and services or free trade with the union
- Free movement of factors of production
- Common external tariff structure
- Harmonized economic policies
- Strong regional institutions
- Use of a common currency
- Sharing of common services.

*Any 6 X1
= 6 marks*

(b) Factors that limit regional economic integration among LDCs'

- They tend to produce similar goods or limited market
- Failure to share benefits equally
- Fear of loss of customs revenue
- Existence of political instability in some member states
- Difference in the levels of development
- Differences in social factors e.g. culture, religion, language
- Conflicts among leaders
- Differences in currencies
- Differences in political ideologies
- External interference or sabotage
- Difference in economic policies
- Lack of political support or will or ignorance of the people
- Limited geographical proximity between countries
- Differences in the size of market or population

*Any 7 X2
= 14 marks*

- 6 (a) **Centralized planning** one where the central authority / government / state plans / allocates resources in the whole economy and it directs implementation of plans in line with set target or objectives. (04 marks)

(b) **The rationale for centralized planning in an economy.**

- To minimize wastage of resources or efficient allocation of resources
- To ensure proper coordination in sectoral development since the private sector is still weak
- To ensure equitable distribution of resources or to fight income inequality
- For proper sequencing of operations in the economy
- To solve the problem of shortage of manpower at local or lower levels
- To protect national interests
- To ensure consistency of plans since centralized planning is done in line with the available resources.
- To ensure proportionality and compatibility of plans
- For easy mobilization of resources
- To allow regional specialization and thus avoid duplication of development projects.
- For political support
- To ensure economic stability e.g. price stability
- To solve unemployment problem
- To promote self – reliance
- To achieve a pre-determined rate of economic growth
- To identify areas suitable for public and private investment
- To relate present and future trends and targets
- To correct deficiencies of price mechanism especially during situations of rapid structural changes
- To minimize divergence between social costs and benefits

*Any 8 X2
= 16 marks*

- 7 (a) **Nationalization of enterprises** is where the government deliberately takes over control and ownership of privately owned enterprises with or without compensation. (04 marks)

(b) Merits of nationalization of enterprises

- Reduces wasteful competition or duplication of activities
- Encourages large scale production / increased output / economies of scale
- Reduces consumer exploitation by charging affordable prices / provision of public utilities
- Nationalization of private enterprises enable the country get rid of foreign domination with all its associated evils.
- It promotes economic stability e.g. price control
- Promotes equitable distribution of resources or wealth
- It minimizes profit and income repatriation by foreign investors
- It encourages government to manage vital investment or strategic enterprises
- Reduces social costs.
- It controls private monopoly and its negative effects
- It generates revenue or the government i.e. nationalized industries generate revenue for the government.
- Protects consumers against consumption of undesirable products
- It increases employment opportunities.

Any 8 X1 = 8 marks

Demerits of nationalization of enterprises

- It leads to inefficiency and therefore production of low quality output.
- Encourages corruption and thus misuse of funds
- Consumer choice is restricted due to limited variety of goods and services.
- It is associated with bureaucracy and thus slows decision making.
- High government expenditure on running nationalized enterprises or may subject nationals to high taxation.
- Political interference in running of nationalized enterprises e.g. political appointment of managers
- Leads to low tax revenue
- Leads to resource misallocation since it interferes with price mechanism
- Discourages private investment.

Any 8 X1 = 8 marks

- SECTION A

1. (a) (i) Define elasticity of **demand** (01 mark)
 (ii) Give any **three** factors which determine elasticity of demand (03 marks)
- (b) (i) Distinguish between **Lateral integration** and **Conglomerate integration** (02 marks)
 (ii) State two conditions necessary for the success of lateral integration of firms (02 marks)
- (c) (i) Distinguish between **Average propensity to consume**(APC) and **Maginal propensity to consume** (MPC) (02 marks)
 (ii) Given that a country's total consumption is shs 480,000 billion and its total income is shs 60,000billion: calculate its APC (02 marks)
- (d) (i) Distinguish between **import substitution strategy** of industrial development and **export promotion strategy** of industrial development (02 marks)
 (ii) Mention two merits of import substitution strategy of industrial development (02 marks)
- (e) (i) Distinguish between **Piece rate** and **Time rate** methods of wage payment (02 marks)
 (ii) Outline two merits of piece rate method of wage payment (02 marks)
- (f) Give any four causes of underemployment in an economy (04 marks)
- (g) (i) Distinguish between **Cash ration** and **Reserve ratio** (02 marks)
 (ii) Give two reasons why the reserve ratio may be increased in an economy (02 marks)
- (h) (i) What is meant by the term **dumping** (01 mark)
 (ii) State any three effects of dumping in the recipient country (03 marks)
- (i) (i) Distinguish between **Suppressed inflation** and **Hyper- inflation** (02 marks)
 (ii) Give any two effects of hyperinflation in an economy (02 marks)

- (j) (i) **Taxable income** and **taxable capacity** (02 marks)
(ii) Mention any two principles of taxation (02marks)

SECTION B

2. (a) Distinguish between **Maximum price legislation** and **Minimum price legislation** (04 marks)
(b) Why may the use of price controls be avoided in an economy (16 marks)
3. (a) Describe the features of monopolistic competition. (08 marks)
(b) How does the firm under monopolistic competition maximize profits
(i) In the short run (06 marks)
(ii) In the long run (06 marks)
4. (a) What is meant by the term **Economic development strategy** (04 marks)
(b) Discuss the merits of diversification in production as a development strategy (16 marks)
5. (a) Factors that determine the level of wages. (06 marks)
(b) Explain the limitations of the marginal productivity theory of wage determination (14 marks)
6. (a) Explain the functions of the Central Bank (08 marks)
(b) How does a central bank control credit creation in a multi-bank system (12 marks)
6. (a) Distinguish between **partial planning** and **Decentralized planning** (04 marks)
(b) Of what necessity is development planning in an economy (16 marks)
7. (a) What is a **public corporation** (04 marks)
(b) Examine the role of public corporations in an economy (16 marks)

END

SECTION A

- 1 (a) (i) **Elasticity of demand** is the measure of the degree of responsiveness of quantity demanded of a commodity due to changes in the factors that affect demand e.g. price of the commodity, income levels etc. (01 mark)

OR

Elasticity of demand is the ratio of change in demand of a commodity to change in the factors that affect demand. (01 mark)

(ii) **Three factors which determine elasticity of demand.**

- Availability of substitutes
- Availability of complements
- Proportion of income spent of the commodity
- Level of income of the consumer
- Degree of necessity of the commodity
- Level of addiction in the use of the commodity
- Level of durability of the commodity or level of perishability of the commodity
- Number of uses of the commodity
- Time period – short run or long run
- Possibility of postponement of demand for the commodity
- Speculation about price changes
- Level of awareness of availability of cheaper goods
- Level of convenience of getting the commodity.

*Any 3 X 1
= 03 marks*

- (b) (i) **Lateral integration** is the bringing together assets of two or more firms producing products that are related but not the same but can be conveniently marketed together e.g. shoes and shoe polish making firms. (01 mark)

While

Conglomerate integration is where firms dealing in unrelated products merge for the purpose of achieving diversification of activities e.g. a bookshop and a restaurant.

(01 mark)

(ii) **Two conditions necessary for the success of lateral integration of firms are;**

- The firms have to be of almost equal size
- Production of relate / complementary goods
- The firms should have same capital base
- The firms should have related objectives.

*Any 2 X 1
= 02 marks*

(c) (i) **Average propensity to consume (APC)** is the proportion of the total income spent on consumption.

(01 mark)

OR

Average propensity to consume (APC) is the ratio of consumption expenditure to income. *1 mark*

While

Marginal propensity to consume (MPC) is the proportion of the additional income spent on consumption. *1 mark*

OR

It is the ratio of change in consumption to change in additional income.

(01 mark)

(ii) Total NY = 60,000 B/N

Total consumption 48,000 b/n

$$APC = \frac{\text{total consumption}}{\text{total income}} = \frac{C}{Y} \dots\dots\dots (01 \text{ mark})$$

$$\frac{48000}{60000} = 0.8 \quad (01 \text{ mark})$$

(d) (i) **Import substitution strategy of industrial development** refers to a strategy of establishing industries internally to produce goods formerly imported. *01 mark*

Where as

Export promotion strategy of industrial development is a strategy of promoting domestic manufacturing sector with the aim of increasing goods for export. *(01 mark)*

(ii) **Two merits of import substitution strategy of industrial development are;**

- It helps to save scarce foreign exchange
- Reduces the level of foreign dependence
- Facilitates the development of local skills
- Improves the B.O.P position of the country
- More domestic resources are exploited
- Increases the GDP / economic growth of the country
- Leads to expansion of the manufacturing sector or promotes industrialization
- Enlarges employment opportunities
- Facilitates the transfer of technology
- It increases government revenue through taxation
- It increases income of individuals
- Facilitates inflow of foreign capital
- In the long run helps in earning foreign exchange through exports
- It controls imported inflation
- It creates linkages in the economy.

*Any 2 X 1
= 02 marks*

- (e) (i) **Piece rate** is a method of wage payment where workers are paid according to the amount of work done / work accomplished. (01 mark)

While

Time rate is a method of wage payment where workers are paid according to time taken, spent at work e.g. per hour, day, week, month etc. (01 mark)

(ii) **Two merits of piece rate method of wage payment**

- It eliminates the need for constant supervision
- Workers do work at their own pace
- Higher output is realized
- Encourages innovativeness among workers
- Promotes team spirit among the workers
- Faster workers get more remuneration
- Helps employers in identification of suitable employees
- Tasks are completed faster

*Any 2 X 1
= 02 marks*

- Employers easily forecast output
- It limits disagreements or conflicts over payments or minimizes industrial unrest
- Protects employers from falsified payments since wages are directly rated to output
- Dull or lazy workers are stimulated
- Easy calculation of wages because output is measurable.

(f) Four causes of underemployment in an economy

- Shortage of cooperate factors
- Poor land tenure system
- Political instability
- Limited or small markets
- Ignorance of people about availability of jobs
- Poor attitudes of people towards work or low wages or desire for leisure
- Limited skills
- Seasonal changes e.g. in agriculture
- Rural – urban migration leading to underemployment in urban areas
- Desire to retain labour force by trade unions or employers
- High population growth rates.
- Poor manpower planning
- Discrimination in the labour market e.g. nepotism, race, sex etc
- Limited raw materials

<p><i>Any 4 X 1</i> <i>= 04 marks</i></p>
--

- (g) (i) **Cash ration** refers to the percentage or fraction of the commercial banks' deposits that must be kept or remains in the bank in cash form to meet the cash demands of deposition. **(01 mark)**

Whereas

Reserve ratio is the percentage or fraction of commercial bank's total deposits either kept with the commercial bank or with the central bank. **(01 mark)**

(ii) Two reasons why the reserve ratio may be increased are;

- To control inflation or reduce the amount of money in circulation
- To restrict credit creation by commercial banks
- To protect the interest of deposition in times of crisis and financial instability
- Reduce the liquidity level of the bank
- To safe guard commercial banks

*Any 2 X 1
= 02 marks*

(h) (i) **Dumping** refers to the selling of commodities abroad / external market at a lower price than those charged at home (local market).

(ii) Three effects of dumping in the recipient country

- Local producers are out competed or closure of industry
- Cheap goods are availed to consumers
- Variety of goods to consumers or increased volume of goods improves welfare of the people
- Inferior goods may be sold to consumers
- Increased revenue to government through taxation
- It perpetuates the problem of external dependence of the economy
- Under utilization of local resources
- Discourages local initiatives or investment
- Distorts the b.o.p position of the country

*Any 3 X 1
= 03 marks*

(i) (i) **Suppressed inflation** is a situation where demand exceeds supply but the effect of this on prices is minimized by price controls and rationing. **1 mark**

While

Hyperinflation refers to inflation at where the general price level increases at a very high rate, the increase taking place within hours, days or weeks and the percentage point increase per annum is over 10%. **(1 mark)**

(ii) Two effects of hyperinflation are;

- Discourages savings
- Leads to loss of confidence in the currency
- It worsens the B.O.P positions

- High costs of production may lead to reduced production as some firms close down
- It discourages local and foreign investors
- It encourages illegal activities such as corruption, smuggling etc.
- It leads to production and consumption of poor quality or inferior goods
- Lending is discouraged as creditors stand to lose
- Leads to unemployment
- Promotes speculation
- It makes planning difficult
- It leads to industrial unrest due to constant demand for high wages
- It leads to brain drain
- People are strained in an attempt to cope with the rising cost of living
- Leads to an even distribution of income
- Fixed income earners suffer
- Government becomes unpopular
- Encourages capital outflow.

Any 2X 1= 02 marks

- (j) (i) **Taxable income** is the amount of income which is subject to taxation. (01 mark)

While

Taxable capacity is the extent to which a tax payer can pay tax assessed on him and yet remain with enough disposable income to sustain him and his family in a given standard of living. (01 mark)

OR **Taxable capacity** of a nation is the ability of the government to realize revenue from the tax payers without producing socially, economically and politically harmful effects. (01 mark)

(ii) Two principles of taxation include:-

- | | |
|-----------------------------|------------------------------|
| - Equity | - Neutrality or impartiality |
| - Certainty | - Diversity or |
| - Convenience | comprehensiveness |
| - Economy / efficiency | - Consistency |
| - Productivity | - Avoidance of double |
| - Elasticity or flexibility | taxation |
| - Simplicity | - Ability to pay. |

Any 2X 1 = 02 marks

SECTION B

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

Where as

(02 marks)

Minimum price legislation is the setting of prices of commodities by the government above equilibrium price below which it becomes illegal to buy the commodity. It protects producers. (02 marks)

(b) **Price controls may be avoided due to the following reasons;**

- Fear of causing black markets
- Fear of raising costs of raw materials
- It leads to unemployment or to avoid unemployment
- To avoid unmanageable surpluses and storage problems/wastage
- To avoid discouraging entrepreneurs through tampering with their profit margins
- To avoid high administrative costs on these price controls
- To avoid unnecessary distortion of price system (price mechanism) which may lead to misallocation of resources
- Fear of reducing social welfare of the people / high cost of living or inflation
- Price controls lead to production at excess capacity i.e. underutilization of resources.
- The fear of causing shortages by discouraging production.

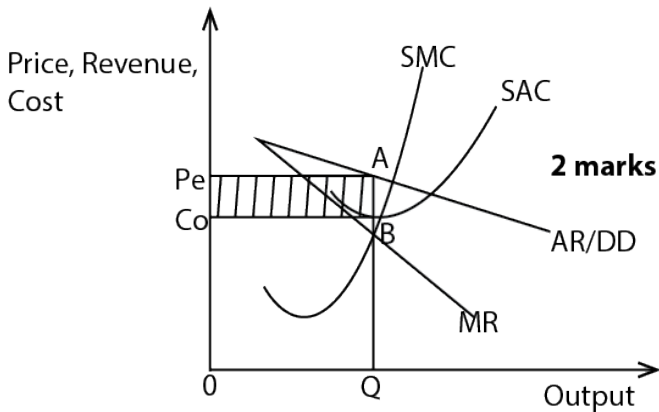
Any 8X 2= 16 marks

3 (a) **Describing features of monopolistic competition.**

- Existence of free entry and exit
- Existence of many buyers and sellers
- Elastic demand curve
- Firms produce differentiated products
- Existence of brand loyalty by consumers
- Firms are price makers to a certain extent because of having monopoly over a brand
- Existence of excess capacity
- Wide spread persuasive advertising
- Profit maximization is the major goal of producers
- Limited interdependence of firms

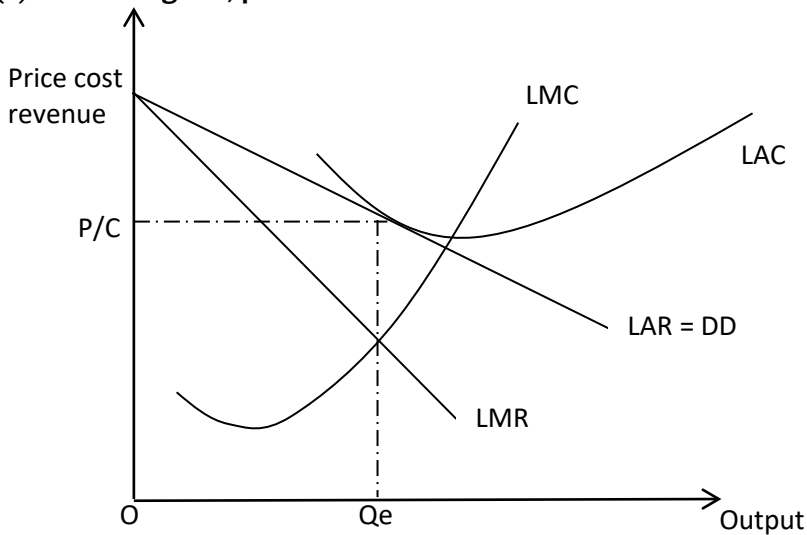
*Any 8X 1
= 08 marks*

- (b) (i) In the short run, profits are maximized at a point where $MC = MR$



- Price is determined where output line meets the AR / DD curve i.e. point A.
- The firm earns supernormal profits shaded area
- Abnormal profits are earned where $AR > AC$
-

- (ii) In the long run, profits are maximized where $MC = Mr$.



- Price is determined where output line meets the AR/DD curve here. The AR is tangential to AC.
- Normal profits are earned since the AR=AC. Because other firms enter and compete away the abnormal profits.

4 (a) **Economic development strategy** refers to a broad policy guideline which a country takes on and follows in the formulation and execution of its policies aimed at attaining specified development goals and objects.

(b) **Merits of diversification of productions**

- It helps to create employment opportunities
- It widens consumer's choices by providing a variety of goods and services
- It widens the export base thus increases foreign exchange earnings
- It increases the tax base as many economic activities are undertaken
- Ensures equal regional development and thus reduces rural – urban migration
- It increases the country's GDP / economic growth
- It promotes linkages between different sectors of the economy
- It leads to optimum exploitation and utilization of resources
- It helps to avoid the risks and uncertainties in some sectors e.g. agriculture
- Over comes problems of price fluctuation and its negative effects
- Ensures fair distribution of income
- Helps to develop infrastructure

*Any 8X 2
= 16 marks*

5 (a) **Factors that determine the level of wages.**

- The market forces of demand and supply of labour
- Nature of jobs i.e. risky jobs or pleasantries
- The level of education and training or skills
- The bargaining strength of individual workers
- The government policy on wages

*Any 6X 1
= 6 marks*

- The cost of living
- Employer's ability and willingness to pay
- The number of hours worked i.e. time rate system
- The level of talents / natural gifts
- Level of discrimination in the labour market or sociological factors
- Ability of workers to do work – piece rate
- The strength of workers' trade unions
- The level of experience, expertise, responsibility.

(b) **The limitations of the marginal productivity theory of wage determination are;**

- Government usually intervenes in fixing wages
- It ignores the role of trade unions in bargaining for high wages or individual bargaining power of work
- Labour is not homogeneous and worker's productivity varies
- Labour cannot wholly be substituted
- Labour tends to be immobile
- The law of diminishing returns may not hold, there may be increasing returns
- Employers at times use subsistence level as a measure of wages, which may be above or below the value of the marginal product
- It is difficult to measure the marginal product of labour in some occupations or sectors
- It ignores historical factors in wage determination e.g. inherited salary structures
- It does not consider the exploitation of workers by capitalists
- It does not consider not consider the level of education and training, which may differ
- It ignores supply of labour in determining wages
- Labour and employers cannot determine the exact value of the marginal product since output is produced by many factors.

Any 7X 2= 14 marks

6 (a) **Functions of the Central Bank**

- It issues the country's currency i.e. printing currency notes and minting coins
- It is a banker to the government by keeping government funds, foreign exchange reserves etc.
- It acts as a fiscal agent and advisor to government e.g. formulating budgets, taxation, devaluation or economic policy
- It is a banker to commercial banks and other financial institutions
- It controls and regulates the operations of commercial banks
- It's a banker to international institutions working in the country e.g. IMF, Red Cross, F.A.O etc.
- It is a clearing house for all commercial banks i.e. they settle their indebtedness through the Central Bank
- It manages the country's monetary policy e.g. controlling the volume of money in circulation

Any 8X1= 8 marks

(b) **How a central bank controls credit creation**

- | | |
|-------------------------------------|------------------------|
| - Through the Bank rate. | - Use of minimum legal |
| - Open market operations | reserve requirement |
| - Selective credit control | - Rationing of credit |
| - Use of special deposits | - Currency reforms |
| - Moral suasion | - Cash ratio |
| - Regulation of margin requirements | - Direct intervention |

Any 6X2= 12 marks

- 7 (a) **Partial planning** refers to planning that covers one part of the economy or few sectors or one sector of the economy.

Whereas

Decentralized planning is one whereby economic decision making and the implementation of plans in line with set targets, are undertaken by local governments or local authorities instead of the Central government.

(b) Reasons why development planning is necessary

- For proper allocation of scarce resources
- For equitable redistribution of incomes and wealth
- To correct the deficiencies of price mechanism especially during times of rapid structural changes
- To solve the employment problems
- For resource mobilization
- To relate present to future trends and targets
- For harmonious and consistent use of resources
- To identify areas suitable for public and private investment
- To encourage public participation in development process or solicit for political support
- To attain price stability by influencing production levels
- To correct balance of payments problems
- To solicit for foreign aid
- To determine the rate of economic growth and development

*Any 8X2
= 16 marks*

8 (a) A public corporation is a business organization or enterprise in which government holds either all the shares or majority of its share capital.

It is created by an act of parliament which clearly defines its aims and objective e.g. national water and sewerage corporation.

(b) The role of public corporations

Positive role

- Creation of employment opportunities to the people
- Development of infrastructure
- Raising large capital and thus undertaking large scale operations
- Promoting economic growth and development i.e. they are development oriented
- Provision of essential services to the public
- Help in avoiding foreign domination of the economy
- They undertake strategic investments or projects of national importance
- Provision of non-profitable but essential goods and services e.g. garbage collection or merit goods

Any 8X1= 8 marks

- They are a source of revenue to government
- Ensures consumer protection against undesirable goods e.g. Uganda national bureau of standards
- They help in controlling private monopoly

Negative role of public corporations

- They strain the government budget i.e. high government expenditure on managing public corporations
- Provision of poor quality goods and services due to lack of competition
- Bureaucracy in decision making and implementation of policies negatively affects their efficiency
- The public is taxed highly to cover the losses made by these public corporations
- Poor accountability by public officials and embezzlement of funds resulting in more losses
- Limited flexibility in operation changes i.e. slow adaptation to changes
- Limited consumer sovereignty
- Shortages occur in times of breakdown
- Interested with the politicians e.g. political appointments
- They tend to discourage private investments
- Large scale operation results into diseconomies of scale.

Any 8X1= 8 marks

END

SECTION A

1. (a) (i) Distinguish between Inferior goods and Complementary goods (2marks)
(ii) Give any two examples of complementary goods (2 marks)
- (b) (i) What is meant by real domestic product (1 mark)
(ii) Given that the nominal gross domestic product is shs 150b and the price index is 150, calculate the economy's real gross domestic product (3 marks)
- (c) State any four features of Rostow's transitional stage of economic growth (4 marks)
- (d) (i) Define cyclical unemployment (1 mark)
(ii) State any three measures that should be adopted to curb down cyclical unemployment in an economy (3marks)
- (e) (i) Distinguish between partial planning and perspective planning (2 marks)
(ii) Mention any two demerits of partial planning in an economy (2marks)

SECTION B

2. (a) Explain the methods used in computing national income in an economy (6marks)
(b) Examine the problems faced when computing national income in an economy (14marks)
3. (a) Distinguish between Economic growth and economic development (4 marks)
(b) Explain the benefits of economic growth in an economy
4. (a) Assess the causes of price fluctuations of agricultural products in an economy (10marks)
(b) Suggest measures that should be adopted to stabilize prices of agricultural products in an economy (10 marks)
5. (a) Describe the process of credit creation by commercial banks
(b) Examine the factors that limit the ability of commercial banks to create credit in an economy (10 marks)
- 6 (a) Explain the causes of inflation in an economy (06 marks)
(b) Suggest measures that should be taken to control inflation in an economy (14 marks)
- 7 (a) Trace the features of a good tax system (8marks)
(b) What is the role of taxation in the development of a country

SECTION A. (20 marks)

- 1 (a) (i) **Inferior goods** are goods whose demand reduces /falls as consumer's level of income increases.

While

(01 mark)

Complementary goods are those goods that are jointly demanded such that an increase in demand for one increases demand for another.

(01 mark)

(ii) **Examples of complementary goods.**

- Car and petrol /fuel
- Torch and dry cells.
- Gun and bullets.
- Pen and ink.
- Tooth pest and shoe polish.
- Bread and butter.

*Any 2X1
= 2 marks*

(b) (i) **Real Gross Domestic Product** refers to the monetary value of goods and services produced within a given country in a given period of time expressed at base year prices.

(01 mark)

(ii) **Real GDP = $\frac{\text{Nominal GDP}}{\text{Price index}} \times 100$**

(01 mark)

Price index

$$= \frac{\text{shs. } 150,000,000,000}{105} \times 100 \quad (01 \text{ mark})$$

105

$$= \text{shs. } 142,857,142,857.$$

OR = 142.857 billion.

(01 mark)

(c) **Four features of Rowstow's transitional stages of economic growth.**

- Cultural barriers begin to reduce /society becomes less conservative /limited levels of conservatism.
- The economy becomes dualistic in nature.
- Saving rise to 5% of GDP /GNP/NY.
- Investment increases to 5% of GDP/GNP/NY.
- Emergence of entrepreneurs in the economy.
- Illiteracy rates reduce.
- Emergence of foreign trade/ the economy becomes open.
- Adoption of better and efficient methods of production/ improvement in technology.
- Improvement in socio-economic infrastructures.
- Industrialization starts to take root

*Any 4X1
=4 marks*

(d)(i) **Cyclical unemployment** is one that arises due to deficiency in effective or aggregate demand for final goods and services especially in times of economic recession/ depression.

(ii) **Any three measures that should be adopted to minimize cyclical unemployment.**

- Increase government expenditure.
- Reduce direct taxes
- Use of expansionary monetary policy.
- Subsidization of consumers.
- Encourage private investment through incentives to generate more employment.

Any 3X1

=3 marks

(e) (i) **Partial planning** refers to planning that covers part of the economy/a few sectors/one sector. **(01 mark)**

While

Perspective planning refers to long term planning in which long term targets are set in advance for a period of ten or more years. **(01 mark)**

(ii) **Any two demerits of partial planning in an economy.**

- Worsens income / wealth inequality.
- Causes regional imbalances in development
- Encourages under utilizations of the available resource /low output.
- Encourages sectoral dependence.
- Limits employment creation.
- Limited / low tax revenue.

Any 2X1

=2 marks

SECTION B (80 MARKS).

2 (a) **Methods of calculating national income in an economy.**

1. **Income approach.**

(01 mark)

This involves adding up the total money value of all incomes received by persons and enterprises for rendering productive services in an economy in a year.

(01 mark)

OR

By adding up factors payments i.e. wages, interest, rent and profits in a given year.

2. Expenditure approach.

(01 mark)

This involves adding up the total amount of money spent on final goods and services in a given year. OR $NY = C + I + G + (X - M)$ (Must define)

(01 mark)

3. The output/product/value added approach.

(01 mark)

This involves adding up money value of final goods and services from all productive activities of the economy in a given year at each stage of production.

OR

It is the summation of value added to output at each stage of production in a given year.

(01 mark)

(b) Problems faced when compiling national income in an economy.

- Problem of valuing unpaid for services.
- Inadequate statistical data /information.
- Errors of omission and commissions.
- Difficulty of calculating the value of depreciation.
- Shortage of trained personnel and equipment.
- Problem of double counting e.g. transfer payments.
- Difficulty of valuing subsistence output / non marketed output.
- Problem of estimating net incomes from abroad.
- Difficulty of determining boundary of production.
- Problem of valuing inventories and work in progress.
- Difficulty of determining government expenditure.
- Problems of price changes / inflation
- Problem of valuing income from illegal activities e.g. smuggling, prostitution, drug trafficking, etc.

Any 7X2
=14 marks

3. (a) **Economic growth** is the persistent/sustained increase in the country's volume of goods and services in a given period of time.

OR Is the persistent quantitative increase in GDP /GNP of an economy over time.

(02marks)

Whereas

Economic development is the quantitative and qualitative increase in the productive capacity of the country.

(01 mark)

(b) Explain the benefits of economic growth in an economy.

- Increase enjoyment of leisure / improved S.O.L.
- Increased government revenue from taxes.
- Increased humanitarian activities with the rich societies reaching out to the poor societies
- Increased production of goods and services /increased utilization of resources.
- Better B.O.P position due to increased exports and reduced imports.
- Development of infrastructure.
- Reduced income inequalities.
- Increased employment opportunities
- Improved technology/innovations and invention.
- Consumption of a variety of goods and services due to high income.
- Improved labour skills.
- Political stability as the population becomes contented.
- Removal of obstacles to growth e.g. conservatism, backward cultures.
- It leads to industrialization/ increased urbanization.

*Any 8X2
=16 marks*

4. (a) Causes of price fluctuations of agricultural products in an economy.

- Long gestation period /inelastic supply in the SR.
- Heavy dependence on natural factors /seasonal factors.
- Perishability of agricultural products / storage problems.
- Low price elasticity of demand (inelastic demand) for agricultural products.
- Bulkiness of agricultural products, thus transport problems.
- Low income elasticity of demand for agricultural products.
- Weak bargaining position of LDCs on the work market/weak determination of prices.
- High competition from synthetic/ artificial fibres.
- Poor surplus disposal system / machinery / poor infrastructure.
- Divergence between actual and output levels.
- Agricultural products forming minor input in industrial sector.
- Raw material saving technology by major buyers.

- High competition among agricultural producers/ many producers making planning difficult.
- Lack of co-operation among producers of agricultural products/weak commodity agreements.
- Changes in the costs of production.

*Any 10X1
=10 marks*

(b) Measures that should be taken to stabilize prices of agricultural products in an economy.

- Operation of buffer stock where surplus output is bought by marketing boards during harvest/plenty and sold in periods of scarcity.
- Use of stabilization fund policy.
- Improve on the storage system so as to stabilize supply.
- Improve on the transport /disposal system/improve infrastructure.
- Modernize agriculture to produce better quality products and reduce its dependence on nature e.g. use of irrigation, commercialize agriculture etc.
- Industrialization within agriculture to add value to agricultural products.
- Adopt strict quota system.
- Undertake market expansion and diversification.
- Strengthen /joint international commodity agreements.
- Price control by government by use of minimum price legislation.
- Stabilize costs of production through subsidization of the farmers.
- Encourage proper planning of production.
- Educate/sensitize farmers about price fluctuations.
- Encourage co-operatives to regulate supply
- Agricultural diversification.
- Use of contract farming/future market arrangement.

Any 10X1 =10 marks

NB; Use should/may/can.

5 (a) **The process of credit creation by commercial banks.**

Recovering of the initial deposit by the first bank (Bank A) from a client/depositor /customer.

Keeping a percentage of the deposit as a cash ratio/reserve by the first (bank a.)

Lending the balance to a credit worthy client by Bank A.

Receiving money lent out as a new deposit in another/(second bank B)

Keeping of a percentage of the deposit in bank B as a cash ratio/reserve.

Lending of the reserve to a credit worthy customer by Bank B.

(each 1mrk)

The process continues till the initial deposit defuses/diminishes in the banking system. **(2 mks)**

At the end of the process, the total credit created is;

$$\text{Total credit created} = \text{initial deposit} \times \frac{1}{\text{CR}}$$

(2 marks)

(b) **Factors that limit the ability of commercial banks to create credit in an economy.**

- Lack of collateral security.
- Few credits worthy borrowers.
- High cash ratio
- High interest rate on loans/ low interest rate on deposits.
- Corruption by the bank officials.
- High liquidity preference
- Unpopularity of loans/ low demand for loans.
- Poorly distributed commercial banks/ few /basically urban based commercial banks.
- Low income levels of the population.
- Low savings /low deposits.
- Restrictive contractionary monetary policy by the central bank/government.
- Large subsistence sector.
- Limited knowledge of commercial bank services.

Any 10X1=10 marks

6 (a) **The following are the causes of inflation in an economy.**

- Rising production costs (e.g. rising wages, interest rates, fuel prices)
- Natural hazards leading to a fall in supply from the agricultural sector.
- Break down of infrastructure and key industries.
- Political instability (that destroys infrastructure).
- Importation of goods from countries experiencing inflation.
- Excessive inflow of income from abroad
- Greed for profits by traders.
- Speculation by traders and consumers.
- Excessive money supply/ issuance of currency.
- Excessive government expenditure.
- Declining value of the local currency relative to other currencies i.e. depreciation of the local currency.
- Excessive exportation of the essential goods/ increased demand for exports.
- Excessive / uncontrolled credit creation.
- Excessive borrowing from the central bank.
- Excessive aggregate demand over aggregate supply.

*Any 6X1
=6marks*

(b) **Measures that should be taken to control inflation in an Economy.**

- Increase direct taxes
- Reduce government expenditure.
- Liberalization of the economy
- Provide incentives to investors/improve investment climate.
- Development of infrastructures.
- Modernization of agriculture.
- Privatization of the state enterprise.
- Encourage importation from cheap sources.
- Improve on political climate.
- Control government borrowing from the central bank.
- Reduce indirect taxes on essential goods and services.
- Use of restrictive/contractionary monetary policy.
- Control export of essential goods.

*Any 7X2
=14marks*

- Establishment of import substitution industries.
- Encourage use of instruments of credit.
- Adopt currency reforms.
- Undertake price control i.e. maximum price control.
- Adopt wage freeze and wage restraint.

NB; USE SHOULD/MAY/CAN

7 (a) **The features of a good tax system.** It should be:

- Certain. I.e. one whose base, time of payment, amount to be paid is known.
- Convenient. I.e. when and how to pay the tax should be convenient to the tax payer.
- Economical/cheap/ convenient in the tax administration cost.
- Equitable and fair I.e. the burden of payment should fall equitably on all the tax payers.
- Neutral/ impartial. I.e. should not discriminate among tax payers.
- Simple. I.e. should be easily calculated and understood.
- Elastic/ flexible. Should be altered /adjusted according to the prevailing economic conditions.
- Productive i.e. should be able to encourage effort, initiative and hard work and should not discourage investment.
- Comprehensive /diverse i.e. should have a wider source or base.
- Consistent. I.e. should be in line with national economic objective.

*Any 8X1
=8marks*

(b) **The role of taxation in the development of the economy.**

- It is a means of acquiring public revenue
- Ensures equitable distribution of income
- Improving BOP position
- Means of protecting domestic firms
- Controls inflation
- Discourages production/ consumption of demerit goods
- Influences the level of economic growth
- Controls/regulates monopoly power
- Means of controlling dumping
- Ensures proper resource allocation/influences investment
- Encourages hard work and initiative/effort
- It is a means of forced savings

*Any 6X2
=12marks*

SECTION A

1. (a) (i) Define income elasticity of demand *(1mark)*
(ii) Given that the quantity demanded of a commodity reduced from 780kgs to 600kgs resulting from the increase in income of the consumer from shs25000/= to shs40,000/=. Calculate the income elasticity of demand *(3 marks)*
- (b) State any four characteristics of the informal sector in your country *(4 marks)*
- (c) (i) What is meant by economic dependence. *(1 mark)*
(ii) Mention any three forms of economic dependence *(3marks)*
- (d) (i) Define capital intensive technology as a method of production *(1 mark)*
(ii) State any three factors that limit the adoption of capital intensive technology in your country *(3marks)*
- (e) (i) What is meant by a national budget *(1mark)*
(ii) Outline any three objectives of a budget in your country *(3marks)*

SECTION B

2. (a) Explain the methods used in determining salaries and wages *(6marks)*
(b) Account for the differences in salary and wage rates in your country *(14marks)*
3. (a) What is meant by trade liberalization *(4 marks)*
(b) Examine the implications of trade liberalization in an economy *(16marks)*
4. (a) Describe the structure of Uganda's population *(6marks)*
(b) Assess the implications of such a structure in your country *(14 marks)*
5. (a) Explain the objectives of a monetary policy in your country *(6marks)*
(b) Explain the methods used by the central bank to regulate money supply in your country *(14marks)*

- 6 (a) Explain the benefits of economic development planning in your country (08 marks)
- (b) Explain the factors that influence the implementation of economic development plans in your country (12 marks)
- 7 (a) Account for privatization of public enterprises in your country (10 marks)
- (b) Explain the contribution of the private sector in the economic development of your country (10 marks)

END

SECTION A

- 1 (a) (i) **Income elasticity of demand** is the measure of the degree of responsiveness of quantity demanded of a commodity to changes in the income of the consumer. **1 mark**

(ii) **Income elasticity of demand**

$$= \frac{\text{proportionate } (\%) \text{ change in Quantity}}{\text{dd}}$$

Proportionate (%) change in income of the consumer. **1mark**
OR

$$\begin{aligned} YED &= \frac{\Delta Q}{Q} \times \frac{Y}{\Delta Y} \dots\dots\dots 1 \text{ mark} \\ &= \frac{600 - 780}{40000 - 25000} \times \frac{25000}{780} \dots\dots\dots 1 \text{ mark} \\ &= \frac{-180}{15000} \times \frac{25000}{780} \\ &= -0.385 \text{ Or } = -5/13 \dots\dots\dots 1 \text{ mark} \end{aligned}$$

(b) **Characteristics of formal sector in my country include;**

- Made up of predominantly registered business.
- Mainly provides salaried employment.
- Has (proper) record keeping.
- Businesses are mainly governed by laws/ acts of parliament.
- Dominated by corporate ownership of resources.
- Have employees and employers' unions.
- Mainly uses better/modern technology /capital intensive.
- Produces better/ improved quality output.
- Mainly urban or sub urban based.
- Mainly uses skilled labour.
- Production is for commercial markets/profit oriented.

*Any 4X1
=4marks*

(c) (i) **Economic dependency is the reliance of an economy** on another economy (or sector) for survival / development. **1mrk.**

(ii) **Forms of economic dependency in my country include:**

- Sectoral dependency
- Trade dependency
- External dependency.
- Direct economic dependency.

*Any 3X1
=3marks*

(d) (i) Capital intensive technology is a production method that employs relatively more capital than other factors of production especially labour. **(1 mark)**

(ii) **Factors that limit the adoption of capital intensive technology in my country include the following.**

- Limited fund/ stock of capital.
- Limited labour skills.
- Limited entrepreneurial skills/ability.
- Low level of innovation and invention/research.
- Cultural rigidities/ conservatism.
- Poor topography.
- Small /limited market for technology and products.
- Underdeveloped or poor conditions of infrastructure.
- Poor land tenure system.
- Poor accountability/corruption.
- Political instability.
- Inappropriate where human judgment is required

*Any 3X1
=3marks*

(e) (i) **A national budget** is an estimate of a country's expected revenue and anticipated expenditure for a given financial /fiscal year. **(1mark)**

(ii) **Objectives of a budget in my country include:**

- Attaining and maintaining price stability / controlling inflation.
- Creating employment opportunities/ reducing unemployment.
- Improving BOP [position/correcting Bop deficit.

- Reducing income inequality/ promotion of equitable income distribution.
- To protect domestic (inflation) industries / firm.
- To discourage consumption of harmful / undesirable products.
- Accelerating rate of economic growth.
- To raise revenue of by the government.
- To influence investment.
- Influencing resource allocation.
- Regulating government expenditure.
- To mobilize/ solicit foreign resources.
- To mobilize masses to participate in national development

*Any 3X1
=3marks*

SECTION B

2 (a) The following are ways of determining Salaries and wages in Uganda are

- Through market forces of demand and supply of labour.
- Through collective bargaining.
- By employers setting the salaries/wages.
- Through individual bargaining
- Using the piece rate
- Using the time rate.

*Any 6X1
=6marks*

(b) Differences in salary and wage rates in Uganda are due to:

- Differences in nature of jobs.
- Variation in the level of skills.
- Differences in bargaining strength of individual worker.
- Non-matching government policy on income and wage.
- Differences in the cost of living.
- Differences in employers' ability and willingness to pay.
- Differences in number of hours worked-case with time rate.
- Differences in talent and natural gifts.
- Discrimination in labour market on basis of sex, age, religion etc.
- Differences in elasticity of supply of labour.
- Difference in strengths of labour organization/ trade unions.
- Differences in people's ability to work –case with price rate.

- Differences in experience, expertise or responsibility; in that senior workers tend to be paid more.

*Any 7X2
=14marks*

- 3 (a) **Trade liberalization** is the removal of unnecessary controls on trade hence giving people the liberty to trade without undue government controls like total ban, quota system, tariffs, administrative etc. to increase value and benefits of trade.

(any 2 examples x1=2mks)

(Total 2+2=4mks)

OR

Trade liberalization is the removal of unnecessary restrictions of trade by relaxing the use of instruments such as quota, total ban, tariffs and administrative controls in trade/ increase value, volume and benefit of trade.

- (b) **Positive implications of trade liberalization on an economy include the following.**

- Increased employment opportunities.
- Increased level of output hence increased growth rate.
- Encourages resource(s) utilization.
- Encourages inventions and innovations/ technological transfer/ technological development.
- Improved quality of goods.
- Competition forces firms to be efficient in order to remain in business.
- Increased revenue to government.
- Fights corruption.
- Tends to fight (structural) inflation.
- Improves BOP position as exports are encouraged.
- Reduces income and wealth inequalities (among people and regions)
- Upholds consumer sovereignty.
- Encourages foreign investment/ inflow of capital /resource inflow.
- Wide varieties of goods are produced / widens consumer choices.
- Increases infrastructural development.
- Improves relationship with (other countries especially) donors.
- Promotes economic diversification.

*Any 9X1
=9marks*

- Promotes entrepreneurial skills.
- Helps to develop labour skills.

(ii) Negative implications of trade liberalization.

- Makes the institution susceptible to instabilities especially price fluctuation.
- Leads to collapse of local firms due to competition.
- Leads to unemployment.
- Danger of resource misallocation.
- Duplication hence resource wastage.
- Depletion of some resources due to over exploitation.
- Flooding of markets that sometimes force prices to go very low to unacceptable levels.
- Distortion of consumer choice due to advertisement / intensive sales promotion activities.
- Consumer exploitation due to ignorance.
- Foreign economic dominance.
- Encourages capital outflow.
- May give rise to monopoly and its associated evils.
- Leads to increased exposure of consumers to harmful products.
- Leads to income and wealth inequalities.
- Environmental degradation is accelerated.

*Any 7X1
=7marks*

4 (a) The structure of Ugandan population is such that:

- It is dominated by the young who constitute over 40% of the population.
- Females are more than the males.
- The population is mainly rural based; with approximately 80% of population living in rural areas.
- Majority of the population are semi-skilled and/or unskilled.
- It is characterized by high illiteracy –about 32%
- Productive force of the population is mainly engaged in primary production.
- It is characterized by high annual growth rate approximately 3%.
- Big population lives below international poverty line.
- Un even spatial distribution of population.

Any 6X1 =6marks

(b) Positive economic implication of the population structure of Uganda.

Any 7X1 =7marks

- High market potential.
- High potential for labour force
- An incentive/ potential for massive future investment.
- High tax potential.
- Initiate effort to work harder to sustain the predominantly dependant population.
- Government is awakened to its responsibility of providing necessary infrastructure and this leads to increase in output.
- Encourages labour mobility.
- High potential for increased resource utilization.
- The young are usually innovative-room for potential invention.
- High potential for increased resource utilization.
- Reduces per capita social overhead costs.

(ii) Negative economic implications include the following.

*Any 7X1
=7marks*

- Low labour productivity
- High dependency burden resulting into low saving.
- Results into unemployment and underemployment
- Limited domestic market/ low effective demand.
- External resource dependency e.g. on foreign manpower.
- BOP problems due to high import requirements to supplement domestic supply.
- Available infrastructure is over strained.
- Effective planning for the population becomes difficult.
- High government expenditure on provision of social services.
- High social cost in form of pollution, congestion. Etc.
- Results into brain drain.
- High rates of rural-urban migration and the negative implications.
- Causes/ perpetuates income inequality.
- Exerts pressure on the land
- Quick depletion of resources due to over exploitation.

5 (a) **Objectives of monetary policy in Uganda include.**

- To attain /ensure price stability.
- To influence the level of employment.
- To influence BOP position.
- To ensure stability of exchange rates.
- Influencing the rate of economic growth
- Influencing interest rates in the economy.

*Any 6X1
=6marks*

Any 7X2 =14marks

(b) **Methods used by the central bank to regulate money supply in my country include.**

- The bank rate policy
- Open market operation.
- Legal reserve requirement.
- Rationing of credit.
- Special deposit / supplementary legal reserve requirements.
- Variable reserve requirement (cash ratio, liquidity ratio)
- Selecting credit control.
- Moral suasion.
- Margin requirement.

6 (a) **The benefits of economic development planning are;**

- Ensure proper resource allocation / utilization.
- Ensure equitable distribution of resources / income/
- Reduce the level of unemployment problems.
- Correct BOP problem.
- Ensure stability in prices.
- Ensure self-sufficiency/ reduces dependence.
- Promote resource mobilization.
- Encourage public participation in the development of the economy.
- Harmonizes /ensures consistent use of resources.
- Means of attracting foreign aid.
- Helps in identifying areas suitable for public and private investment.
- Relates present to future trends and targets thus consistency.
- Promotes economic growth and development.
- Corrects deficiencies of price mechanism; most especially during situations of rapid structural changes.

*Any 8X1
=8marks*

(b) Factors that influence the implementation of economic development plans in Uganda include:

*Any 6X2
=12marks*

- The availability of funds.
- Availability of data /information.
- The degree of responsiveness of the private sector.
- The degree of political interference
- The level of government commitment / level of conservatism /the will.
- The efficiency of the implementation machinery / the labour skills
- The political atmosphere/ climate.
- The level of accountability.
- The rate of inflation /the price level.
- The degree of ambitiousness of planning / the ambition of planning relative to means.
- The degree of dependency on external resources / or aid for planning.
- The level of dependency external resources/or aid for planning.
- The level of dependency on nature /conduciveness of natural factors.
- The level of infrastructural development.

7 (a) Public enterprises have been privatized in my country due to following.

- Enabling firms to operate more efficiently.
- Reducing corruption tendencies which are rampant in state enterprises.
- To create more employment opportunities especially in the long run.
- Reducing government expenditure on subsidization / running the enterprises.
- To meet IMF conditionality of creating a private sector led economy.
- Encouraging competition hence increased quality output.
- To expand tax base / raise revenue for government through the sale of the enterprises.
- Improving /increasing the level of resource utilization.

*Any 10X1
=10marks*

- Reduce bureaucratic tendencies and resultant negative effects.
- To encourage creativity and innovation.
- To help the government to concentrate on provision of social services.
- Improving BOP position (improving exports and reducing imports).
- Controlling inflation. (structural)
- To increase output hence economic growth.

(b) The contribution of the private sector to the economic development on my country is as follows.

- Provision of employment
- Provision of capital both foreign and local.
- Promotion of industrialization.
- Providing revenue to the government.
- Development of entrepreneurial skills.
- Promotes innovation and invention/ technological progress.
- Infrastructural development / improvement.
- Provide a basis for competition thus efficiency.
- Provision of a variety of goods and services /widens consumer choices.
- Improves quality of goods and services.
- Facilitates increased use of resources hence avoiding wastage.
- Increased economic growth /GDP due to increased output.
- Increased skills of labour.
- Promotes commercialization of the economy.
- Help improve the country's BOP position.
- Diversifies the economy / reduces dependence.

*Any 10X1
=10marks*

1. Effective demand. Is the actual buying of a commodity from the market at a given price and time. Or is the demand for a commodity backed by the ability to pay at a given price and period
2. Mixed economy. Is an economic system in which both the private and public sector operate side by side in allocation of resources
3. A dual economy. Refers to an economy where there is co-existence of two contrasting features one being desirable, superior and modern and a another one undesirable, inferior and traditional
4. Parastal organisation. Is an organisation set up by the government through the act of the parliament to perform some functions which may be either commercial or non commercial
5. Inflationary gap. Is an economic situation where aggregate demand exceeds aggregate supply at full employment level of national income
6. Inter – related demand. This is where demand for one commodity affects the demand for another commodity. The effect can be positive or negative.
7. Competitive Demand or demand for substitutes. This is demand for goods that serve more or less the same purpose e.g. the demand for omo and nomi, the demand for coffee and tea leaves, demand for a bic pen ad nice clear pen.
8. Joint or complementary demand. This is demand for goods that are used simultaneously. One item cannot be used without the other e.g. demand for shoe polish and show brush, demand for tooth brushes and Colgate (tooth paste) demand for books and pens, demand for a car and fuel.
9. Composite demand. This is the demand for a commodity that has several or many uses e.g. demand for water, demand for kimbo, demand for cotton wool, and demand for electricity.
10. Derived demand. This is demand for a product not for its own sake but for the sake of what it helps to produce. Demand for all the factors of production is derived demand e.g. demand for labour and land is derived from the demand of the products that labour and land are to produce.

11. Independent demand/autonomous demand. This is where demand for a commodity does not affect or is not affected by the demand for other commodities e.g. the demand for shoes and sweets. However, there is always an indirect link between the demand for all commodities because they are all influenced by the income of the consumer.
12. Latent demand. Is the desire or willingness to buy a good or service but not backed by the ability to pay at a given price and time period
13. Cross demand. Is the demand for commodities that are related i.e. they may be substitutes or complements
14. Market demand. Is the total demand of goods and services at the prevailing price in a given period of time
15. Aggregate demand. Is the total planned expenditure or spending on goods and services by all the buyers at a given period and given price level. $AD = C + I + G + (X - M)$ in an open economy
16. Economic dependency is the reliance of an economy on another economy (or sector) for survival /development.
17. Capital intensive technology is a production method that employs relatively more capital than other factors of production especially labour.
18. A national budget is an estimate of a country's expected revenue and anticipated expenditure for a given financial /fiscal year.
19. Trade liberalization is the removal of unnecessary controls on trade hence giving people the liberty to trade without undue government controls like total ban, quota system, tariffs, administrative etc. to increase value and benefits of trade. Or
20. Trade liberalization is the removal of unnecessary restrictions on trade by relaxing the use of instruments such as quota, total ban, tariffs and administrative controls in trade/ increase value, volume and benefit of trade.
21. Cash ratio. Is the percentage of commercial banks initial deposits kept in cash form and loaned out to meet the day to day requirements of bank customers
22. Liquidity ratio. Is the proportion of commercial banks deposits kept in cash form or near cash form

23. Narrow money supply: It's the total sum of money in hands of the public plus the amount on current account of commercial banks
24. Broad money supply: It is the total sum of money in the hands of the public plus all deposits within the commercial bank
25. Exo-geneous money supply: It is the supply of money which is fixed and determined by the monetary authority or by the central bank .It is also called discretion money supply
26. Endo-geneous money supply: is the one which is determined by the level of economic activities in the country or depend on other factors which influence money supply like interest rate. It is called automatic money supply
27. Bill of exchange. Is a document which promises the barer to be paid a certain sum of money after a specified period of time and without any condition. A bill of exchange is similar to a post dated cheque and it can be endorsed for payment to any named person other than the drawee
28. Treasury bill. Is an income yielding paper used by the government to lend or borrow money from the public in a short period of time usually less than one year where the barer is entitled to a fixed rate of interest
29. A bond. Is a piece of paper drawn by a borrower promising to pay a lender a certain amount of money (principle) at a specified date (maturity date) and to pay a given amount of interest per year or for a long period of time. It can be drawn by the government, city council, municipality etc
30. A cheque. Is a document written by the current account holder to his/her bank requesting it to pay a specified sum of money to the person to whom it is written
31. Shares. Are liquid assets of a company which can be bought and sold in a stock exchange market. Or a share is a unit of a loan of a joint stock company
32. Supply effort. Is the number of hours labour is willing to offer at work during a given period of time
33. Corporate tax is the tax charged on the profits of companies
34. Capitalisation of tax. This is where companies convert profits into shares to pay less corporate tax
35. Tax rate: This is the amount of tax revenue which the government intends to charge on each unit or value of the tax base

36. Tax avoidance: this is a situation where a tax payer dodges paying a tax by exploiting loopholes in the tax system
37. Or Is a situation where a tax payer uses legal means not to pay the tax imposed for example a person going back to school and becomes a student or avoiding buying a commodity on which a tax has been imposed
38. Tax evasion: this is the deliberate refusal of a tax payer to pay the tax assessed on him/her and it is illegal i.e. a person hiding at the time collecting the tax
39. Tax base; it refers to the range of economic activities or items on which taxes are levied. It looks at how many sectors the tax system covers
40. Taxable capacity; is the ability of an individual or firm to pay the tax levied without affecting the tax payer's standards of living.
41. OR .It is the extent to which a tax payer is able to pay a tax assessed on him and again remains with income which can sustain him in an average desirable standard of living
42. Taxable capacity of a nation. Refers to the percentage of a country's GDP that is within the capability to contribute to the public revenue in form of taxes. It should be noted that this capacity depends on the collection machinery, level of corruption among the tax collectors and tax administration
43. Incidence of a tax; It refers to the final resting place of a tax i.e. who actually bares the money value of the tax. There are two types of tax incidence namely:
44. Formal incidence: This refers to the first impact of a tax which is suffered by the person who actually pays the tax due to the authorities
45. Effective incidence: this refers to the ultimate impact of the tax which is borne by the person who suffers the reduction in his/ her disposable income
46. Impact of a tax; this is the immediate person or a firm on which a tax is imposed or it is the 1st resting place of a tax i.e. who eventually pays the tax
47. Tax burden; it refers to how a tax payer feels when the tax is imposed on him inform of money loss or goods and services foregone. Tax burden is of two types;

48. Real burden of a tax; This is the fore going of commodities as a result of paying the tax
49. Money burden of a tax; this is the money loss as a result of paying tax
50. Tax structure; This is the composition of a tax according to either mode of payment i.e. direct or indirect taxes Or the percentage of income paid as tax i.e. progressive, proportional, regressive and digressive
51. Taxable income; this is the amount of income which is subjected to taxation
52. Tax rebate; it refers to a tax refunded by the government to a tax payer under special considerations. For example to encourage investments, the government may refund taxes originally paid on imported raw materials
53. Tax liability; is the amount of money a tax payer is required to pay within a given period of time
54. Tax havens; is a situation where certain countries lower their tax rates in order to attract foreign investments
55. Equity; this is the principle of taxation which states that the amount of tax imposed on each individual should be according to his/her ability to pay. It is in two forms
56. Horizontal equity; refers to taxing all people with the same level of income uniformly
57. Vertical equity; refers to taxing people at different levels of income differently i.e. people with higher levels of income should be taxed highly compared to others with low income
58. Dead weight tax; this is a tax which when imposed causes the tax payer to abandon economic activity which initially forms the tax base
59. Tax design; this is the formulation/framing of a tax structure which will maximize the public revenue from a given tax base. It involves who or what to tax
60. Tax yield; this is the amount of tax revenue obtained given the tax rate
61. Tax exemption; this is the elimination of a person from paying a given tax due to status for example lame, blind, housewives etc. It is also being given to investors to attract them
62. Tax allowance; this is the allowance made to a tax payer on which he does not have to pay a tax for example tax free allowances for

children, wife which are deducted from the personal income before tax is calculated/assessed

63. Tax shifting; this is the attempt to pass the burden of tax to other members of the society who ultimately pay the tax. It can be forward shifting where a firm legally liable to pay customs and excise duties on its products attempt to recover tax increase by raising the product prices i.e. shifting the tax to consumers or backward shifting which involves a firm reducing prices of its inputs i.e. shifting the tax to the suppliers of goods (inputs) or lateral shifting which involves the firm reducing dividends paid to its share holders so as to pay tax
64. Proportional tax: this is a tax whose average rate is constant irrespective of the size of income of individuals on which it is levied i.e. it can be 30% on all individuals' income
65. Progressive tax. This is a tax whose average rate increases with increase in income. people of different incomes have to pay different rates of taxes and this implies that high income earners will pay high taxes those with low incomes will pay lower taxes for example Pay As You Earn (PAYE)
66. Regressive tax; this is a tax whose rates fall as the income or spending power of the individual increases. This is when the burden of the tax follows more heavily on low income earners. such a tax is usually indirect tax like expenditure tax. For example if it charged on a certain commodity a lower income earner will pay a higher ratio in relation to his income compared to a high income earner
67. Digressive tax. This happens when the tax is only mildly regressive up to a particular rate beyond which the same tax rate is charged
68. Direct taxes. These are taxes imposed on income or property of individuals or firms who directly pay them. The burden and the incidence of tax cannot be shifted to another person
69. Income tax. This is a tax levied on individuals' income like Pay As You Earn (PAYE). Its advantageous in that it can be progressive as well as proportional if well assessed
70. Estate duty/Death duty. This is a tax imposed on the property of the deceased
71. Capital gains tax. This is a tax imposed on the gains made by a seller of capital assets whose value have appreciated over time

72. Gift tax. This is a tax imposed on the value of wealth being transferred from one person to another. However, there have been academic arguments as regards who should pay the tax the donor or the donee
73. Property tax. This is a tax assessed by tax authority on the assets owned by the individuals for example houses, land, machinery etc
74. Sur tax. This is a tax imposed on individuals with a very high level of income exceeding a certain specified limit
75. Graduated tax. It is a tax levied on the citizens or residents of the country basing on one's income and property
76. Poll tax. It is the tax imposed at a fixed rate on every head of the family
77. Wealth tax. This is a tax imposed on wealth or accumulated savings.
78. Indirect taxes. These are taxes levied on goods and services. They are also known as outlays or out lay taxes/expenditure taxes/consumption taxes or hidden taxes. It can be either specific or advalorem tax
79. A specific tax is a tax imposed on each unit of output produced
80. Advalorem tax is the tax calculated according to the value of the commodity. For example if the value of a good is 3000/=-, and the Advalorem tax is 20% of the value, then the tax is $20/100 \times 3000 = 600/-$
81. Excise tax/duty. This is a tax imposed on home made goods and services like tax on sugar beer etc
82. Customs duty/tax. This is a tax imposed on goods either entering or leaving the country i.e. a tax either on imports or exports.
83. Import duty: This is a tax imposed on goods entering a country
84. Export duties. These are taxes imposed on goods leaving a country i.e. taxes on exports
85. Sumptuary tax. This is a tax imposed on commodities considered harmful to the health to discourage their consumption and production for example a tax on alcohol drinks. It is also known as *prohibitive tax*
86. Octroi tax. This is a tax imposed by a country on goods passing through its territory in transit to another country for example Kenya imposes octroi tax on imported goods passing through its territory to Uganda
87. Turn over tax. This is a tax imposed on the total sales of a business regardless of the stage of production and distribution. In Uganda this tax has been replaced by Value Added Tax (VAT)

88. Value added tax. This is a tax imposed on the value of a commodity at each stage of production. In Uganda VAT is charged at 18% of the increase in the value of a commodity
89. Zero rated goods: these are goods where there is no payment of VAT on output but producers can claim any VAT on inputs
90. Or, these are goods that do not bear any tax (VAT) but the supplier of such goods can claim a tax refund if he paid taxes on outputs for example drugs, foodstuffs etc
91. Exempt goods: these are goods which are not liable to VAT and no credits is given for any tax paid on inputs for example houses (immovable)
92. Standard rated goods: these are goods which must have Value Added Tax paid on them like motor vehicles, beer, sugar etc
93. *Sales tax*. This is a tax levied on the level of transactions which take place between the buyers and the sellers. Sales tax include *single stage sales tax*: this is levied once at the first sales and purchase
94. *Multi-stage sales tax*: this is levied every time a sale of the same units of the commodity takes place. It is difficult to administer
95. Gross Domestic Product (GDP). This is the monetary value of all goods and services produced within a country (by both nationals and foreigners) in a given period of time (including the value of depreciation).
96. Net Domestic Product (NDP). This refers to the monetary value of all the final goods and services produced within the territorial boundaries of a country (by both nationals and foreigners) in a given period of time excluding the value of depreciation.
97. Depreciation is the wear and tear of capital equipment during the production process. It's also referred as capital consumption. $NDP = GDP - \text{Depreciation}$.
98. Gross National Product (GNP). This refers to the total monetary value of all the final goods and services produced by the nationals of a country (both within and abroad) in a given period of time (including the value of depreciation). $GNP = GDP + \text{Net income from abroad}$.

Where net income is the differences between the incomes got from nationals abroad and incomes got by the foreigners from the country.

99. Net National Product (NNP). This refers to the monetary value of all final goods and services produced by citizens of a country (both at home and abroad during a given period of time excluding depreciation. $NNP = GNP - \text{Depreciation}$. Other concepts related to national income include:
100. Income per capital. This refers to the average income per person in a country in a given period of time. It's obtained by dividing the country's national income by population. $\text{Income per capital} = \text{national income} / \text{population}$ or $\text{GNP per capita} = \text{GNP} / \text{population}$
101. Disposable income (take home pay). This refers to the income available to the individuals for spending/ saving after the personal income taxes and other compulsory contributions have been deducted.
102. Personal income. This includes the income received from the productive economic activities as well as the income received without having carried out any productive activity e.g. those in form of transfer payments from the government and that from business.
103. Transfer payments are payments received without corresponding goods and services rendered. That is to say they are payments for no work done. They are also known as non-quid-proquo payment e.g. in form of old age person. They are called non-quid-proquo payment because there is no direct good and services expected from the one who has received it. Forms of transfer payment include: student's allowances, pocket money, old age persons, gifts, unemployment benefits, social security benefits etc
104. Head line inflation. This is inflation resulting from persistence increase in general price levels of both food and non-food items (consumer goods and services)
105. Under lying inflation. This is inflation resulting from a persistence increase in general price level of only non-food items i.e. inflation that excludes food prices
106. Suppressed inflation/pressed inflation /controlled/incident inflation. This is a situation where during inflation government puts

- in place measures to restrict demand so as to minimize price increase like using price controls, rationing of items etc
107. Stag inflation. This is a situation where high rate of inflation co-exist with high levels of unemployment and stagnant output
 108. Stagnation. This refers to undesirable period of static economic activities in an economy. It is characterized by no new investment, no new job opportunities, constant G.D.P growth rate etc.
 109. Inflation spiral/price wage inflation. This is a situation in which a persistence rise in prices of goods and services leads workers to demand for higher wages which increase the cost of production leading to a further rise in prices which again leads to demand for higher wages.
 110. Disinflation. This refers to decline in the rate of inflation in an economy e.g. from 57% to 20%
 111. Open inflation. This is a situation where the persistence rise in general prices is not interfered with by the government through price controls
 112. Reflation. Refers to deliberate government policy to stimulate production by increasing prices or increasing money supply or credit after a deflation or fall in prices
 113. OR. Policies that aimed at mild increase in prices so as to stimulate economic activities in order to pull economy out of depression
 114. Inflation tax. This is a situation where government deliberately causes rise in prices through increasing money supply to pay for its expenditure other than increasing taxes to meet the expenditures. OR. A situation where government hopes for the promotion of inflation by increasing taxes to pay for its expenditures.
 115. Deflation. This refers to the decline in general price level in country due to fall in aggregate demand
 116. Debt conversion: This refers to a situation where the government can convert a short -term loan into a long term loan or vice versa. The conversion of long term loan internal loans to short term internal loans increases liquidity and conversion of internal short-term loans into long term loans reduces liquidity in the economy.
 117. Debt contraction. This is the obtainance of a loan/debt from a lender. It is equally so formal in getting an external debt between

- the lender and the borrower who must both sign the debt agreement after agreeing on terms and conditions they have stated
118. Years of grace: This is the period between debt contraction and the time when debt servicing commences i.e. when the debt has retired
 119. Debt servicing: This is the payment of the interest on a debt and sometimes plus a proportion of the principle which is due (keep paying interest on the debt and sometimes part of the principle amount which is due. This begins after the years of grace have expired
 120. Debt retirement: This is the time when the contracted debt must be repaid to the creditor or the lender. This takes place after the debt servicing or during debt servicing
 121. Debt rescheduling: it refers to the postponement of the debt repayment period. When the debt retirement is due but the borrowing country finds its self unable to repay the debt it can through negotiations request the lender to give it another period of time after which a new date should be stated for retiring the debt. This means that a country may continue servicing the debt for the stated new period until retirement is made
 122. Interest free loans: these are loans given to a borrowing country carrying no or having no interest on the principle.
 123. Concessional bilateral debts: these are debts from countries for which a very low rate of interest is paid and repayment of the principle takes a long date say 20 years or more
 124. Non -concessional debts: these are given by either the government or international financial institutions basically on commercial forms. They carry a very high interest rate and the lenders of such loans are purely business driven
 125. Debt trap: This is the acquisition of a new loan to pay the old loan
 126. Debt consol: This is the debt whose principle is never paid but the lender continues to earn interest on the borrowed fund
 127. Recurrent expenditure: this is the government expenditure on the day to day running of the state. For example paying salaries of civil servants

128. Development expenditure: This is government expenditure on medium and long term projects for example road construction, industrialization etc
129. Public debt. Is the total amount of money government owes to its creditors both at home and abroad
130. National debt. Is the money borrowed by the central government from within and outside the country but excludes the debts incurred by public corporations and local authorities
131. Internal debt/domestic debt: This is the total amount of money owed by the central government to domestic entities in form of bonds and treasury bills for example from central banks, individuals etc
132. External debts: this refers to the amount of money owed by the central government to foreign governments and international agencies like African Development Bank, IMF, World Bank etc
133. Or. These are debts constituted by the amount of money the government acquires from outside countries through borrowing. For example from IMF, World Bank, foreign governments etc
134. A reproductive debt: This is a debt (internal or external) that has been contracted to purchase real assets or productive assets which contribute to the internal growth and development of the country i.e. Can be used to produce goods and services whose gains can be used again to repay the debts for example debts to build schools, dams, industries etc
135. A dead weight debt: this is a debt that is contracted to finance unproductive activities for example purchase of firearms, organizing ceremonies or to finance current consumption there is no expected gains
136. OR a debt which does not contribute to its repayment
137. A funded debt: This is the debt with no specified period of repayment at the time of borrowing. It's a debt contracted by the government by buying bonds whose redeemable dates are not specified by the government but it keeps on paying the annual interest on the principle. It is normally a long-term debt

- 138. Unfunded debts (floating debt). This is the short term debt whose date or time for repayment is specified at the time of securing it
- 139. Consumer price index. Is the figure which measures relative changes of prices of consumer goods from one period of time to another
- 140. Multiplier concept. Refers to the number of times an initial change in autonomous expenditure multiplies itself to give a final change in national income
- 141. Real income per capita. Refers to the average income per person in a country expressed in terms of goods and services in a given period of time
- 142. Nominal income per capital. Is the average income valued to base year prices per person in a country expressed in monetary terms
- 143. Real GDP. Refers to the total monetary value of goods and services expressed in terms of goods and services
- 144. Nominal GDP. Refers to the total monetary value of goods and services produced from the productive resources of the country expressed in monetary terms
- 145. Savings. Are part of one's income put aside for future use
- 146. Cost of living. Refers to the expenses incurred to maintain a given standard of living.
- 147. Or. This refers to the amount of money required for purchasing goods and services to maintain a given level of standard of living in a country in a given period of time.
- 148. Marginal propensity to import. Is the fraction of the additional income spent on imports
- 149. Investment. Is the process of devoting part of person's and nation's income to the production or purchase of capital assets to produce other goods and services
- 150. Real/ Physical investment; this refers to investments in form of tangible assets e.g. buildings, factories etc out of which income/ returns are expected.
- 151. Financial investment; refers to the investment in the financial market through purchasing financial facilities such as shares, bonds, treasury bonds etc from which people expect to get returns.
- 152. Induced investment; refers to investments that are influenced by changes in levels of income that is to say if income increases,

induced investment increases and if income decreases, induced investment decreases. This is usually due to investments carried out by private individuals

153. Autonomics investment; refers to investment in an economy that is independent or not influenced by changes in income levels e.g. as income increases or reduces, the level of investment remains constant. This is usually true of investments carried out by the government.
154. Gross investment; refers to total amount of investment undertaken which is used for replacing worn out capital and that increases the capital stock.
155. Replacement investment; refers to investment undertaken to replace and repair worn out capital (cater for depreciation or capital corruption)
156. Net investment; refers to investments undertaken which increases size of capital stock
157. Public investment; refers to investment undertaken by the state.
158. Private investment; refers to investment undertaken by private individuals
159. The investment multiplier. This is the number of times an initial change in investment expenditure multiplies itself to give a final change in income.
160. Investment multipliers =
$$\frac{\text{change in investment income}}{\text{change in investment expenditure}}$$
161. Consumption multiplier. This refers to the number of times the initial change in consumption expenditure multiplies itself to give the final change in income.
162. Consumption multiplier =
$$\frac{\text{Change in income}}{\text{Change in consumption expenditure}}$$
163. Government multiplier. This refers to the number of times by which an initial change in government expenditure multiplies itself to generate a final change in income.
164. Government multiplier =
$$\frac{\text{Change in income}}{\text{Change in governemnt expenditure}}$$

165. The export multiplier. This is the number of times the initial change in export earnings multiplies itself to give the final change in income.
166. Export multiplier =
$$\frac{\text{change in income}}{\text{Change in export earnings}}$$
167. The income multiplier. This is the number of times the initial change in total expenditure in an economy multiplies itself to give the final change in income.
168. Income multiplier =
$$\frac{\text{Change in income}}{\text{Change in total expenditure}}$$
169. NB: Since national income = $C + I + G + X - M$
170. Total expenditure = $C + I + G + X - M$
171. $\Delta TE = \Delta C + \Delta I$
172. Employment multiplier. This is the number of times the initial change in employment in an economy multiplies itself to give final change in income.
173. Tax multiplier. This is the number of times the initial change in tax revenue multiplies itself to give the final change in income.
174. Factor cost (FC). This is the amount of money paid to factors of production
175. National income at factor cost NY_{fc} . Refers to national income valued at what is paid for factors of production in the production process
176. National income at market price (NY_{mp}). Refers to national income valued at what is paid for final goods and services
177. National income at constant price (NY_{cp}). Refers to the money value of goods and services produced in a given year when valuation is adjusted in a base year
178. Market price (MP). This is the amount or value of money paid for the final goods in the market
179. Net Property Income from abroad or Net factor income from abroad (NPY). This is the difference between property income earned by nationals of a country abroad and property income earned by foreigners in a country.

- 180. Hence $NPY = \text{income earned by nationals abroad} - \text{income earned by foreigners in the country}$
- 181. Net exports. Is the difference between the amount or value of money earned from exports and the amount of money spent on imports
- 182. Indirect taxes/outlays/expenditure taxes (I.T). These are taxes imposed on goods and services
- 183. Subsidies (sub). These are payments made by the government to producers of essential goods and services to encourage their production and consumption
- 184. Accelerator principle. Refers to the number of times an initial change in consumption expenditure multiplies itself to give a final change in investment
- 185. Iron law of wages. States that workers should be paid a bare minimum wage that is subsistence wage so that they can work harder after experiencing hardships
- 186. A fee is a payment made by an individual or firm for any service rendered to them by the state
- 187. Bilateral trade. This is the exchange of goods and services between two countries for example between Uganda and Tanzania
- 188. Multilateral trade. This refers to the exchange of goods and services among more than two countries for example Uganda, Rwanda and German, between Kenya, Burundi and USA
- 189. Entre-pot trade. This is the exchange of goods and services between countries across territorial boundaries of another country
- 190. Intra-trade This is the buying of goods by a country from another country and reselling them to another country
- 191. Import trade. This is the purchase of commodities from another country. It involves goods and services entering into the country. It is divided into:
- 192. Visible import trade. This is the trade in goods or tangible items bought by a country from other countries. In Uganda they include drugs, vehicles, spare parts, military hard ware etc
- 193. Invisible import trade. This is a trade in intangible items bought by a country from other countries. Such items in Uganda include Telecommunication services, banking, and technical services in form of expatriates

194. Export trade. This is the selling of commodities to another country. It involves both goods and services. It includes:
195. Visible export trade. This is trade in tangible items sold by a country to other countries like coffee, tea maize, fish etc in case of Uganda
196. Invisible export trade. This is trade in intangible items sold by a country to other countries. In Uganda they include tourism, electricity, transport etc
197. Favorable TOT. This is when the prices of exports are higher than the prices of imports
198. Unfavorable TOT. This is where the price index of a country's imports is higher than export prices
199. Deteriorating TOT. This is when export prices are falling and import prices are rising
200. Improving TOT. This is when the import prices are falling and the export prices are rising
201. Preferential trade area: This is the first stage of economic integration where countries give preferential treatment in form of reduced tariffs on selected commodities from member states for example PTA of Eastern and Southern Africa
202. Free trade area: This is the second stage of economic integration where there is free trade among member countries (states) but external tariffs against non-member countries differ among member countries. There is no common tariffs policy on trading with other countries each country is free to set its own tariff rates in trading with non member countries
203. Customs union: This is a form economic integration where there is free trade among members with a common tariff structure on goods from non member states
204. Common market: This is a form of economic integration where there is free trade among member states with a common external tariff structure on goods from non-member countries and also free movement of factor services (within the region FOP)
205. Economic union: This is an advanced stage of integration with free trade among member states, with a common external tariff structure on goods from non-member states, free factor flows (movement), harmonized economic and political policies as wells as sharing and running of common services jointly e.g. European Union

- 206. Economic federation: This is the most advanced stage of economic integration where there is perfect free movement of goods and factors among member countries, there is joint ownership of common services and in addition the member countries operate the same monetary and fiscal policies. The countries in this group are run as one, economically and politically like USA
- 207. Injections. Are variables that add money into the circular flow of income
- 208. Leakages. Are variables that take away money from the circular flow of income
- 209. Debt financing. This is where the government borrows funds to finance its expenditures which might not be covered by tax revenue
- 210. Taxation financing. This is where government finances both its recurrent and development expenditures using revenue collected from taxes
- 211. “Vent for surplus theory” states that international trade provides opportunity for countries to utilize formerly idle resources to produce output for the export markets.
- 212. Population density; This is the number of people per km²
- 213. Crude birth rate; This refers to the number of children born alive in a year per 1000 number of people. It should be noted that it's the birth rate determines the growth rate
- 214. Crude death rate; Is the yearly death per 1000 of the people in an area
- 215. Infant mortality rate; This is the number of deaths among the children of 1-4years per 1000 live births in a given situation
- 216. Fertility rate; This refers to the average number of births per 1000 which a woman can bare in her productive period. It is assumed that under normal circumstances the productive age of a woman ranges from 15-45 years. It is the rate at which a woman can conceive.
- 217. Mortality rate; It refers to the number of people who die before their life expectancy is over. For example life expectancy in Africa is estimated to be between 35-45 years and those who die before reaching that age contribute to the mortality rate.
- 218. An aging population; These are people within the age of 65 years and above. In developed countries improvement in standards of

living has raised life expectancy and lowered death rates leading to aging population.

219. Industrial trade union. This is an association of all workers in a particular industry regardless of the type of job done by a worker for example the medical workers' unions to whose membership is open to all those employed in a medical institution as doctors, nurses, administrators, accountants. The Uganda Railway workers.
220. Craft trade union (craft). Is an organization of workers with similar skills across the industrial structure. Membership is based on skills as long as a worker has that skill, he can join the union irrespective of industry or company in which he is employed. For example, national teacher's union, national medical union, union of engineers.
221. White collar trade union. It is an organization of administration and clerical staff (salary employees) and other non-manual workers for example they are very popular in teaching, local governments etc
222. General trade unions. These are trade unions that cover workers in different establishments, occupations and industries. Here membership is open regardless of workers, place of work nature worker's industrial qualification etc.
223. Company trade union. This is the simplest form of trade union that is composed of employees of one firm or two different establishments. They are the most common type of trade unions in Uganda
224. Open shop trade unions. These are unions where employment in a given industry/ line of occupation does not require prior registration by an individual with the trade union.
225. Closed shop trade unions. These are unions where employment in a given industry/line of occupation requires an individual to first register with the trade union before being considered for employment in that industry
226. Foot loose industries; These are industries whose establishment or location in particular areas is not due to particular pull factors.
227. Rooted industries; Are industries whose establishment in a particular area is due to particular pull factors (locational factors)

- 228. Cottage industries; These are small scale industries established to produce mainly consumer goods or for consumption. Like bakeries, grain milling, brick laying industries.
- 229. Service industries; These are industries that provide non-tangible economic products e.g. banking, transport, tourism etc to satisfy human needs.
- 230. Weight gaining industries; These are industries located near the market because their final products are bulkier and more perishable than the raw materials used to make them.
- 231. Weight losing industries; These are industries located near raw materials because they are heavier or more perishable than the final processed products e.g. dairy industries.
- 232. Industrial inertia; It refers to the tendency of an industry(s) to remain located in a given area even after the advantages of location of the industry are no longer significant.
- 233. Black market. Is the one in which there is illegal selling of goods at illegal prices above the maximum price set
- 234. Contestable market. Is the market with no barriers to entry and exit
- 235. Economies of scope. Are advantages of large scale production achieve by a firm involving in production of a variety of products
- 236. Shutdown price. Is the price that is equal to a firm's average variable cost below which it will produce no output
- 237. Breakeven price. Is the price where average revenue equals average cost
- 238. Limit pricing/predatory pricing. Is a method of price discrimination where a firm sets low price for its product below the prevailing price set so as to drive competitors out of the market
- 239. Barometric price leadership. Is a practice under oligopoly market where a firm with a good skill of forecasting economic changes in demand sets price which other firms follow
- 240. Brand proliferation. Refers to an increase in the number of brands of a particular
- 241. Brand switching. Is the decision by consumers to substitute an alternative brand for the one they are currently consuming
- 242. Free goods / free good. This is a good which is in a natural abundant supply and its consumption is at zero price i.e. air, rain water, sunshine.

243. Economic good. This is one which is scarce has money value and yields utility or satisfaction. It is paid for in terms of money e.g. clothes, land, shoes, cars, houses etc.
244. Public goods. These are goods provided by the state to a particular group of people and once provided they become available for others to use at no cost without excluding anyone e.g. street lights, public toilets, public roads, public schools.
245. Private goods. These are goods owned and used exclusively by a single person. The act of consuming a private good excludes others from using it or whoever is not the owner, must seek permission from the owner before using it. They include personal items e.g. personal clothes, personal shoes, personal books, private vehicles
246. Merit goods. These are goods whose consumption is derived to be of a high social value (high intrinsic value) and are meant to improve the quality of life of the people e.g. safe water, education and safe water.
247. Demerit goods. These are goods which inflict damage or harm to consumers and impose costs on the society e.g. cigarettes, alcohol, addictive drugs.
248. Inferior goods. These are goods whose amount demanded reduces as the consumers' income increases e.g. second hand clothes.
249. Normal goods. These are goods whose demand increases as the consumers' income increases i.e. more amount is demanded for when the consumer gets richer e.g. first hand and first days, things like first-hand cars, first hand shoes etc.
250. Necessity goods. These are goods whose demand first increases with increase in the consumers' income up to a certain point beyond which demand becomes constant. They are mainly essential items e.g. items which the consumer cannot do without e.g. soap, fuel, sugar, salt etc.
251. Producer / capital goods. These are goods used to produce other items. They facilitate the production of other goods. They are also known as goods of second order e.g. factory machines, sewing machines, blending machines, oven etc.
252. Consumer goods. These are goods which are meant for final use. They are capable of providing direct satisfaction to wants. They are

also known as goods of first order or final goods e.g. a pen, a book, a sauce pan, cake, tv set etc.

- 253. Intermediate goods. These are goods or raw materials that can be processed further in order to make final goods. e.g. sugar on the making of a cake and sweets, salt in the making of bread, baking flour to bread, limestone in making of cement,
- 254. Durable goods. These are goods capable of giving a long term service i.e. their capacity to satisfy human wants takes a long period of time e.g. furniture, TV set, a car, clothes etc.
- 255. Perishable goods. These are goods whose capacity to satisfy human wants ends after a short period of time e.g. bread, milk, tomatoes
- 256. Material goods. These are goods which are tangible. They constitute all the physical objects that man uses to satisfy his needs.
- 257. Immaterial goods. These are the ones that are intangible. They are basically services e.g. services offered by teachers, services offered by doctors and cooks.
- 258. Giffen goods. These are goods that take a larger proportion of the low-income earners income e.g. maize flour, potatoes, beans, bread etc if there prices increase, the people devote more of their income towards purchasing them.
- 259. Goods of ostentation / status symbols. These are goods that are desirable only when they are expensive. People buy them to show their class, the higher the price, the higher the quantity demanded by the rich e.g. expensive cars, jewellery, expensive or golden watches.