

**KAMSSA MOCK EXAMINATION 2022**  
**P220/1 ECONOMICS PAPER 2 MARKING GUIDE**

**SECTION A (20MARKS)**

1. a) i) **Disguised unemployment** is a situation where labour force is actively/fully involved in production but the marginal product is either negligible zero or negative.  
(1mark)

ii) **The causes of disguised unemployment in Uganda;**

- High population growth rates.
- Nepotism in some sectors of the economy which results into over enrollment or over recruitment of labour.
- Poor land tenure system and shortage of land in some parts of the country.
- Excess supply of labour in an occupation.
- Poor and uncoordinated manpower planning schemes.
- Inadequate supply of capital for investment.
- Limited skills by labour force.

(Any 3x1 =

3marks)

- b) i) **Sectoral dependence** is the reliance of an economy/country on only one single specific sector for development or survival

**while**

**Trade dependence** is the reliance of a country on imports and exports and a few traditional markets for her development.

ii) **Forms of trade dependence in Uganda;**

- Import dependence
- Export dependence
- Geographical concentration of trade
- Commodity concentration of trade.

- c) **Fiscal Policy** is a deliberate policy under which government uses its expenditures and revenue (taxation) to improve the level of economic activities.

(1 mark)

ii) **Instruments of fiscal policy;**

- Taxation
- Public borrowing
- Licensing
- Subsidization
- Fines

(Any 3x1 =

3marks)

d) **The methods of wage determination in Uganda**

- Piece rate system
- Time rate system
- Collective bargaining
- Individual bargaining
- Government policy of wage legislation
- Market forces of demand and supply
- Employers setting wages

(Any 4x1 =

4marks)

- e) i) **Perspective Planning** refers to long term planning covering targets that can be achieved in a period of 10 years or beyond.

(1mark)

**While**

**Comprehensive planning** is planning for the entire economy i.e all sectors at ago.

(1mark)

ii) **Advantages of comprehensive planning in Uganda;**

- Increases employment opportunities.

- Widens the tax base hence increasing government revenue
  - Reduces regional imbalances in development/facilitates balanced regional development
  - Promotes inter-sectoral linkages
  - Reduces income inequalities
  - Promotes a fair income distribution
  - Reduces rural-urban migration
  - Facilitates optimum exploitation of resources
- (Any 2x1 = 2marks)

### SECTION B. 80 MARKS

#### 2. a) The causes of the current inflation in Uganda

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Rising costs of production</li> <li>• Excessive issuance of currency/Excessive money supply</li> <li>• Excessive government expenditure</li> <li>• Excessive/uncontrolled credit creation by commercial banks</li> <li>• Excessive inflow of incomes from abroad</li> <li>• Importation of goods from countries experiencing inflation</li> <li>• Natural hazards leading to fall in supply from agricultural sector</li> <li>• Greed for profits by traders.</li> </ul> | <ul style="list-style-type: none"> <li>• Political instability/poor political atmosphere</li> <li>• Speculation by traders and consumers</li> <li>• Depreciation of the local currency against foreign currencies</li> <li>• Excessive exportation of goods due to increased demand for exports</li> <li>• Rapid population growth rate</li> <li>• Break down of infrastructure</li> <li>• Rising global prices of fuel</li> </ul> |
|---|--|

Any 10 x 1 = 10 marks

#### b) The reasons why the government is concerned about the high rate of inflation in Uganda

- It discourages savings
- It discourages investment
- Fixed income earners suffer as real incomes fall
- It leads to loss of confidence in the local currency
- It worsens the B.O.P problems
- It reduces production due to high cost of production
- It worsens income and wealth inequality
- It discourages lending as creditors (lenders) get less in real terms.
- It leads to unemployment due to closure of some firms
- It leads to brain drain
- It leads to production and consumption of inferior quality products
- It makes government planning difficult
- It encourages malpractice/illegal activities like smuggling
- People are strained in an attempted to work harder so as to cope with the rising cost of living.
- It erodes popularity of government/government becomes unpopular
- It leads to industrial unrest due to constant demand for wage increase. (Any 10x1 = 10marks)

#### 3. a) The causes of unfavourable terms of trade in developing countries;

- Falling prices of developing countries
- Rising prices of imports
- Exportation of mainly semi processed agricultural and mineral products with low value added
- Weak bargaining power of developing countries on the international markets
- Exportation of low quality products/low quality exports
- Increasing competition and substitution of LDCs exports with synthetics produced by MDCs
- Invention of raw material saving techniques by MDCs
- Importation of expensive capital and consumer goods
- Unfavourable exchange rates
- Protectionism policies by MDCs against products/exports from LDCs.

- Market flooding or over supplying of similar raw agricultural products resulting in a fall in export prices.
- Low income elasticity of demand for LDCs exports
- High marginal propensity to import by MDCs (Any 10x1 = 10marks)

b) **The measures that many be taken to improve terms of trade in developing countries;**

- Process primary products to add value to exports
- Improve the quality of exports
- Strengthen international commodity agreements
- Adopt import substitution industrial development strategy
- Negotiate for the removal of trade barrier in export markets
- Encourage importation of goods from cheaper sources
- Diversify export markets
- Diversify products for exports
- Stabilize foreign exchange rates
- Improve on technology/invest in research and development (Any 10x1 = 10marks)

4(a) **The Keynesian theory of unemployment** states that unemployment arises due to deficiency in effective or aggregate demand for goods especially in times of economy recession /depression.

**1mark**

Due to low demand for final products, firms reduce their output, income levels fall, investment is discouraged and thus less labour and capital are employed.

**(1 mark)**

The major remedy according to Keynes is increasing aggregate demand.

**(1 mark)**

**This could be by:-**

- Reducing tax rates
  - Using expansionary monetary policies
  - Increased government expenditure
  - Subsidization of consumers etc
- Any 3x1= 3marks**

**(b) To a greater extent, the Keynesian theory is not applicable to the economies of developing countries, reasons being that**

- It is mainly concerned with demand deficiency yet unemployment in developing countries is basically from supply side.
- It mainly affects industrialized economies yet developing countries are mostly an agro-based economies.
- The theory is applicable under conditions of full employment, which conditions are not found in developing countries.
- As a solution to unemployment, Keynes prescribes policies which increase levels of aggregate demand but these policies may be inflationary in developing countries.
- The theory is based on assumption of a highly monetized industrial economy yet developing countries' economies are basically subsistence.
- Keynesian theory is based on existence of a big and strong private sector yet in developing countries; the private sector is small and weak.
- Product, factor and money markets in developing countries are not as functional as in developed countries and this makes policy implication of the Keynesian theory inapplicable.
- Firms in developing countries, because of structural difficulties tend not to respond quickly and effectively to changes in demand.
- The theory emphasizes investment multiplier as contributor to employment yet in most LDCs it is the export multiplier.
- Keynes based his theory on a closed economy yet most economies of the world (LDCs inclusive) are open.

**8x1=8 marks**

**The minor extent of relevance of Keynesian theory of unemployment the economies of developing countries include:-**

- At times, unemployment in developing countries results due to fall in demand, both domestic and abroad.
- In developing countries there is an element of industrialization hence the theory may be applicable to the industrial sector.
- In the long run as supply of co-operating factors for labour increase, the theory becomes applicable.
- Investment climate affects employment level and therefore promotion of investments in developing countries will expand employment as stated by Keynes.
- Measures to stabilize export earnings through IMF compensatory arrangements to ensure stable export markets affects employment problem by reducing rate of unemployment
- Use of expansionary monetary policies to increase purchasing power in most developing countries have tended to increase employment levels and this is a policy put forward by Keynes thus the applicability to developing countries.

**(3x2 6 mks).**

**5a) The reasons for uneven distribution of income in Uganda;**

- Uneven distribution of natural resources i.e variations in natural resource distribution
- Differences in the levels of education and skills
- Differences in talents and other natural abilities
- Differences in the nature of occupations or jobs
- Discrimination in the labour market based on gender, tribe, race or religion
- Differences in the levels of experience, expertise or seniority
- Differences in the strength of trade unions ability to bargain for higher wages
- Differences in the cost of living
- Differences in the ability of individuals to bargain for income
- Differences in political climate
- Differences in number of hours worked
- Differences in quantity or level of output produced
- Differences in access to credit or contracts
- Political influence in the allocation and distribution of resources in favour of certain areas or sectors.
- Differences in family or social backgrounds.
- Differences in elasticity of supply of labour
- Non matching wage policy by government or employers

**(Any 10x1 =**

**10marks)**

**b) The reasons why it is necessary for government to reduce uneven distribution of income in Uganda.**

- To increase government revenue by widening the tax base
- To increase aggregate demand or market size
- To reduce government expenditure on provision of services for the poor
- To improve standard of living or welfare of the poor
- To control rural-urban migration and its related negative effects
- To control brain drain
- To reduce the dependence burden
- To control exploitation of the poor by the rich
- To reduce political tension and unrest
- To reduce crime rates
- To control resource misallocation to production of luxuries for the rich
- To prevent undesirable social classes

- To reduce B.O.P problems  
10marks)

(Any 10x1 =

**6a) The features of the agricultural sector in Uganda;**

- Mainly on small scale
- Produces mainly low quality output
- Depends mainly on family labour
- Uses mainly unskilled and semi-skilled labour
- Uses mainly labour intensive techniques/ simple tools or rudimentary technology
- Dominated by subsistence production/production is mainly for subsistence
- Produces mainly for the local markets
- Mainly food stuffs are produced/narrow range of cash crops
- Narrow range of products for export
- Mainly rural based
- Depends mainly on nature.

(Any 10x1 =

10marks)

**b) The factors that affect the development of the agricultural sector in Uganda;**

- |  |  |
|--|--|
| • Availability of funds                | • Natural factors                                |
| • Size of the market                   | • Topography                                     |
| • Level of infrastructural development | • Economic climate/Rate of inflation             |
| • Level of skills by farmers           | • Level of entrepreneurial skills                |
| • Natural factors                      | • Availability of agricultural extension workers |
| • Level of technology                  | • Level and quality of research                  |
| • Government policy on agriculture     | • Level of conservation by farmers               |
| • Level of accountability              |  |

(Any 10x1 = 10marks)

**7a) Debt servicing** is the payment of interest on the debt contracted with or without part of the principle

**while**

**Debt conversion** is borrowing from cheaper sources to clear outstanding debts ie acquiring soft loans to clear outstanding hard loans

**b The reasons for the rising public debt in Uganda**

- |  |  |
|--|--|
| • Rising expenditure on public administration  | • Persistent high rates of inflation   |
| • Rising expenditure on servicing the public debt  | • Narrow tax base and the need to close the government revenue-expenditure gap               |
| • Rising expenditure on defence due to increased security threats                            | • The need to close the foreign exchange gap due to persistent low foreign exchange earnings |
| • Rising emergency expenditure due to frequent occurrence of natural disasters               | • The rising need to close the skilled manpower gap  |
| • High population growth rates   | • Rising government expenditure on external commitments and foreign missions                 |
| • Rising costs of infrastructural development  | • High level corruption/low level of accountability on the part of plan implementation       |
| • Continuous over ambitious planning   |  |
| • Rising levels of corruption and embezzlement of public funds                               |  |
| • Rising government expenditure on programmes aimed at creating more incomes and employment. |  |

(Any 10x1 = 10marks)

**END**