

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL II

#### ECONOMICS - PAPER 7

**FRIDAY 14 DECEMBER 2001**

#### INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions in Section B.
3. Section A has **twenty** compulsory multiple-choice questions, each carrying 1 mark.
4. Section B has **six** questions and only **four** are to be attempted. Each question carries 20 marks.
5. Please read further instructions on the answer booklet.

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## SECTION A

### Question 1

- (i) Horizontal merging can best be defined as:
- (a) where firms at the same level of production and producing similar goods come together to form one firm.
  - (b) where two firms at different stages of production come together.
  - (c) where two firms producing different goods come together to form one firm.
  - (d) the localisation of firms.
- (ii) A deliberate act by the government to reduce the value of its currency against other currencies under a fixed exchange rate system is known as currency:
- (a) appreciation.
  - (b) depreciation.
  - (c) devaluation.
  - (d) valuation.
- (iii) Free goods can be well defined as goods which are:
- (a) scarce and have no money value.
  - (b) provided in abundance by nature.
  - (c) provided by the government.
  - (d) provided by other countries as aid.
- (iv) The following are indirect taxes except:
- (a) import duty.
  - (b) excise duty.
  - (c) value added tax.
  - (d) withholding tax.

- (v) The extent to which a country can utilize foreign aid and capital optimally is called:
- (a) marginal utilisation capacity.
  - (b) absorption capacity.
  - (c) optimum capacity.
  - (d) excess capacity.
- (vi) John has a short-term investment in a government security. The certificate he holds is known as:
- (a) Treasury bill.
  - (b) A bond.
  - (c) Security bill.
  - (d) Share certificate.
- (vii) A member of the business community is opposed to a tax system where the tax rate increases as income increases. This tax system is called
- (a) Proportionate tax system.
  - (b) A regressive tax system.
  - (c) A progressive tax system.
  - (d) Unequal tax system.
- (viii) Given  $M = \text{Shs } 800$ ,  $V = 16$  and  $T = 40$ . Calculate  $P$  using the formula  $MV = PT$ .
- (a) 320.
  - (b) 20.
  - (c) 1,280.
  - (d) 800.
- (ix) The type of money whose intrinsic value is less than the face value is known as:
- (a) Legal tender.
  - (b) Fiduciary money.
  - (c) Fiat money.
  - (d) Token money.

- (x) Japan is giving Uganda aid but specifically to put traffic lights on roads in Kampala. Uganda is supposed to buy the lights from Japan. This aid is referred to as:
- (a) tied aid.
  - (b) untied aid.
  - (c) grant.
  - (d) gratuity.
- (xi) Which of the following is not a feature of monopoly?
- (a) Sole supplier of a commodity or service.
  - (b) Price discrimination.
  - (c) Varying output.
  - (d) Freedom of entry.
- (xii) Given a price index of imports of 200 and a price index of exports of 300, calculate the barter terms of trade.
- (a) 0.67.
  - (b) 150.
  - (c) 1.5.
  - (d) 66.7.
- (xiii) The following are features of a customs union except:
- (a) Common external tariff.
  - (b) No barriers/tariffs on goods and services between member states.
  - (c) Individual state external tariffs.
  - (d) Joint policies on internal and external tariffs.
- (xiv) The following are characteristics of good money except:
- (a) Portability.
  - (b) Divisibility.
  - (c) Durability.
  - (d) Compatibility.

(xv) The Malthusian population trap is a situation where:

- (a) Population growth outstrips food supply.
- (b) Food supply outstrips population growth.
- (c) Food growth is stable.
- (d) Population growth is stable.

**Use the following information to answer questions (xvi) and (xvii):**

Given export value of Shs 2,000,000, imports of Shs 3,000,000, taxes of Shs 1,000,000, subsidies of Shs 500,000, depreciation of Shs 300,000, and GDP at market price as Shs 10,000,000.

(xvi) Calculate the Net National Product at market price.

- (a) Shs 9,700,000.
- (b) Shs 9,500,000.
- (c) Shs 10,500,000.
- (d) Shs 10,300,000.

(xvii) Calculate Gross Domestic Product at market price.

- (a) Shs 9,000,000.
- (b) Shs 11,000,000.
- (c) Shs 10,500,000.
- (d) Shs 10,300,000.

(xviii) The following are sources of public revenue except:

- (a) Taxation.
- (b) Loans.
- (c) Lotteries/gambling.
- (d) Bank charges.

(xix) The practice of presenting the same commodity in different shapes, colour, size and packaging so as to make them appear different to the consumers is known as:

- (a) Price discrimination.
- (b) Product differentiation.
- (c) Accommodating.
- (d) Commodity packaging.

(xx) A Giffen good is:

- (a) a luxury good.
- (b) an imported good.
- (c) consumed less as income increases.
- (d) when more of a good is consumed as income increases.

## SECTION B

### Question 2

(2 marks)

(a) What is inflation

(b) Mention six causes of inflation in Uganda.

(6 marks)

(b) Explain six policy measures taken to control inflation in Uganda.

(12 marks)

(Total 20 marks)

### Question 3

(a) Distinguish with examples between visible trade and invisible trade.

(5 marks)

(b) Explain the term “multi-lateral trade”.

(3 marks)

(b) Explain six ways which are used to control international trade.

(12 marks)

(Total 20 marks)

**Question 4**

- (a) Give the characteristics of a market under perfect competition. **(10 marks)**
- (b) Using illustrations explain the position of a perfectly competitive firm in the short-run. **(10 marks)**  
**(Total 20 marks)**

**Question 5**

- (a) Define the following terms:
- (i) nationalisation.
  - (ii) privatisation
- (4 marks)**
- (b) What are the merits and demerits of privatisation? **(16 marks)**  
**(Total 20 marks)**

**Question 6**

- (a) With the help of diagrams distinguish between a change in quantity demanded and a change in demand. **(8 marks)**
- (b) Explain with examples the exceptions to the general law of demand. **(12 marks)**  
**(Total 20 marks)**

**Question 7**

- (a) Define the following:
- (i) Economic growth **(2 marks)**
  - (ii) Economic development. **(2 marks)**
  - (iii) Economic inter-dependence. **(1 mark)**
- (b) Examine five factors that determine the level of economic growth in your country. **(15 marks)**  
**(Total 20 marks)**