

# **PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

## **ATC(U) EXAMINATIONS**

### **LEVEL TWO**

#### **ECONOMICS – PAPER 7**

**TUESDAY, 18 JUNE 2002**

#### **INSTRUCTIONS TO CANDIDATES:**

1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions from 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 book.

## SECTION A

### Question 1

- (i) Consumer sovereignty means that consumers can:
- (a) Satisfy all their needs.
  - (b) Influence the volume of output of different goods.
  - (c) Form economic pressure groups.
  - (d) Outnumber producers in most markets.
- (ii) The following are true of specialization except:
- (a) People have different abilities.
  - (b) People work better when they concentrate on one activity.
  - (c) Specialisation makes the job more interesting.
  - (d) Specialization makes better use of scarce resources.
- (iii) Which of the following best defines derived demand?
- (a) Wants backed up by the ability to pay for them.
  - (b) Demand arising out of the joint use of two goods.
  - (c) Demand for factors of production arising from the nature of demand for the final good.
  - (d) Demand for goods that are close substitutes.
- (iv) Study the table below and use the information to answer questions (iv) and (v):

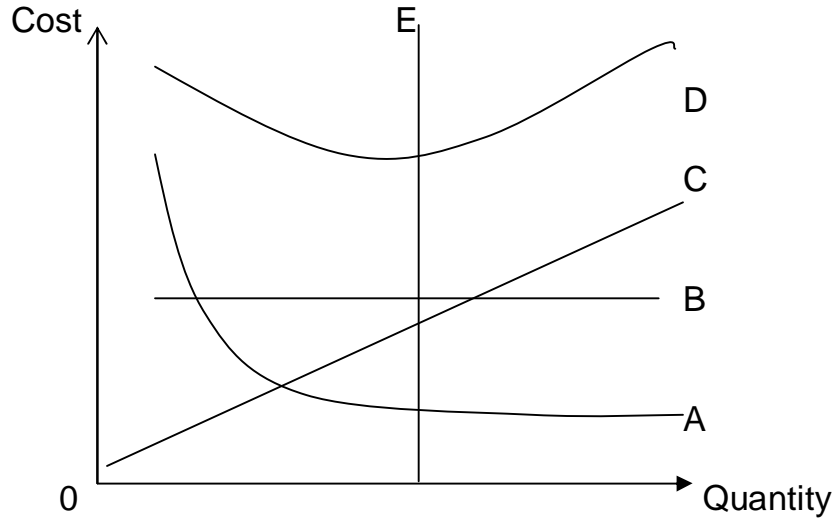
Year	Price of Commodity X (in Shs)	Quantity demand of commodity Y (kg)
2001	12,000	300,000
2002	10,000	500,000

The cross-elasticity of demand for commodity Y in the table is:-

- (a)  $-0.25$
- (b) 4.
- (c)  $-0.0004$
- (d) -4

- (v) The type of relationship between commodities X and Y is that they are:
- (a) inferior goods.
  - (b) superior goods.
  - (c) complementary goods.
  - (d) substitute goods.
- (vi) Uganda Taxi Operators and Drivers' Association (UTODA) charges higher prices to rush-hour travellers than to off-peak travellers. They do this because the demand for rush-hour travel is:-
- (a) more price elastic.
  - (b) less price elastic.
  - (c) more income inelastic.
  - (d) negative at off-peak times.
- (vii) Fixed costs are those costs:
- (a) that can vary in the short run.
  - (b) which can never change.
  - (c) which cannot be altered in the very long run.
  - (d) which do not vary with output in the short run.
- (viii) The Law of Variable Proportions states that, "as additional units of a variable factor are introduced to a fixed factor, ....
- (a) the marginal product will fall continuously, while the average product rises continuously."
  - (b) the average product will rise at first then fall, while the marginal product will fall, at first then rise."
  - (c) the marginal product will rise until it equals the average product."
  - (d) the marginal and average product will rise at first but then fall."

- (ix) Which of the cost curves in the diagram below show the typical shape of an average fixed cost curve?



- (a) A.  
(b) B.  
(c) C.  
(d) D.
- (x) The maximum profit point of output occurs where:
- (a) average cost = average revenue.  
(b) average revenue = price.  
(c) total revenue = total cost.  
(d) marginal revenue = total cost.
- (xi) Which of the following sources of finance is unlikely to be available to a small firm?
- (a) Selling shares to the general public.  
(b) Borrowing from a bank.  
(c) Ploughing back past profits.  
(d) Fundraising from friends.

- (xii) Multinational companies are those that:
- (a) undertake direct foreign investment.
  - (b) sell goods in more than one country.
  - (c) have shareholders living in more than one country.
  - (d) invest in overseas governments' securities.
- (xiii) The table below shows the levels of investment, savings, taxation and government spending at various levels of income.

Income	Investment	Savings	Government spending	Taxation
500	120	100	90	50
600	140	120	85	60
700	160	140	80	70
800	180	160	75	80
900	200	180	70	90

N.B. All figures are in Shs billions.

What is the equilibrium level of income?

- (a) Shs 500 billion.
  - (b) Shs 900 billion.
  - (c) Shs 700 billion.
  - (d) Shs 800 billion.
- (xiv) A tax is regressive if:
- (a) A high income earner pays more of the tax than a low income earner.
  - (b) The same amount of the tax is paid at all levels of income.
  - (c) The average rate of tax increases as income increases.
  - (d) The marginal rate of taxation is constant at all income levels.
- (xv) Inequalities of incomes are necessary in market economies because:
- (i) they stimulate people to try to increase their standard of living by working harder.
  - (ii) they attract labour to different occupations.
  - (iii) they reward people who have special talents.
- (a) (i) only.
  - (b) (ii) and (iii) only.
  - (c) (i), (ii) and (iii)
  - (d) (i) and (ii) only.

(xvi) Unemployment, caused by the general low level of aggregate demand, is called:

- (a) cyclical.
- (b) structural.
- (c) frictional.
- (d) residual.

(xvii) Which of the following is not an asset of a commercial banks?

- (a) Current account deposits.
- (b) Cash in their tills.
- (c) Advances made to customers.
- (d) Investments in government securities.

(xviii) Which of the following is a cause of demand – pull inflation?

- (a) A rise in the level of indirect taxation.
- (b) A rise in the demand for consumer goods.
- (c) A rise in the rate of interest paid on borrowed funds.
- (d) A break down of machinery in an industry.

(xix) Which of the following is an instrument of fiscal policy?

- (a) Directly raising the level of growth of money supply.
- (b) Private investment finance to industry.
- (c) Credit squeeze.
- (d) Changes in the level of government expenditure.

(xx) An inferior good is a good whose demand:

- (a) Increases as its price rises.
- (b) Decreases as income rises.
- (c) Increases as its price falls.
- (d) Decreases as its price falls.

## SECTION B

### Question 2

- (a) What is meant by price mechanism? **(2 marks)**
- (b) Explain three roles of the price mechanism in a free market enterprise. **(6 marks)**
- (c) What are the demerits of the price mechanism? **(12 marks)**
- (Total 20 marks)**

### Question 3

- (a) Distinguish between Gross National Product (GNP) and Gross Domestic Product (GDP). **(4 marks)**
- (b) How is national income estimated? **(6 marks)**
- (c) Explain five reasons for computation of national income statistics. **(10 marks)**
- (Total 20 marks)**

### Question 4

- (a) Define the term “investment multiplier”. **(2 marks)**
- (b) Study the table below showing changes in the level of income, consumption and savings in an economy, and answer the questions that follow:-

Time Period	Change in Income Y (US \$ '000)	Change in Consumption C (US \$ '000)	Change in Savings S (US \$ '000)
A	100,000	80,000	20,000
B	-	-	-
C	-	-	-

- (i) Calculate the change in the level of income consumption and savings for the periods B and C to complete the table above. **(6 marks)**
- (ii) State the multiplier when the MPC is 80%. **(2 marks)**
- (iii) Calculate the overall change in the level of income in the economy. **(2 marks)**
- (c) Explain four factors limiting the effective operation of the investment multiplier in your country. **(8 marks)**
- (Total 20 marks)**

**Question 5**

- (a) Define the following:
    - (i) Cost – push inflation. **(2 marks)**
    - (ii) Imported inflation. **(2 marks)**
  - (b) Outline six causes of cost-push inflation. **(6 marks)**
  - (c) Explain five policy measures used to control inflation in Uganda. **(10 marks)**
- (Total 20 marks)**

**Question 6**

- (a) Define the term commercial policy. **(2 marks)**
  - (b) Outline any four instruments of commercial policy in your country. **(4 marks)**
  - (c) Why do some countries adopt protectionism as an international trade policy? **(14 marks)**
- (Total 20 marks)**

**Question 7**

- (a) Distinguish between:
    - (i) Tariffs and excise duties. **(4 marks)**
    - (ii) Tax avoidance and tax evasion. **(4 marks)**
  - (b) Give four uses of taxes in your country **(4 marks)**
  - (c) Explain four reasons why people evade paying taxes in your country. **(8 marks)**
- (Total 20 marks)**