

# **PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of the Council of ICPAU*

## **ATC(U) EXAMINATIONS**

### **LEVEL TWO**

#### **ECONOMICS – PAPER 7**

**FRIDAY, 13 DECEMBER 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) The most fundamental problem in resource allocation is:
- (a) Scarcity.
  - (b) Choice.
  - (c) Opportunity cost.
  - (d) Consumption.
- (ii) Which of the following is the best description of consumer surplus?
- (a) The consumer pays more than he expected.
  - (b) The consumer exhausts all his income.
  - (c) The consumer pays less than he would be willing to pay.
  - (d) The consumer obtains more quantity of a good or service than expected.
- (iii) The price of the commodity is Shs 10 per unit, and the respective quantity demanded is 15 units. If the price falls by Shs. 2, quantity demanded increases by 5 units, what is the price elasticity of demand for the commodity?
- (a) -2.
  - (b) 0.6
  - (c) 1.6
  - (d) -0.6
- (iv) The short-run average cost curve is U-shaped due to:
- (a) diminishing marginal returns to scale.
  - (b) increasing returns to scale.
  - (c) economies and diseconomies of large scale production.
  - (d) short-term losses.
- (v) In national income accounting, the expression  $O = Y = E$  implies that:
- (a) the three methods of national income expression do not necessarily yield the same results.
  - (b) the three methods of national income measurement yield the same results.
  - (c) the three methods of national income expression yield the same results.
  - (d) the three methods of national income measurement do not necessarily yield the same results.

- (vi) Normal profits are also commonly referred to as:
- (a) maximum profits.
  - (b) zero profits.
  - (c) optimal profits.
  - (d) short-term profits.
- (vii) Capital markets are highly characterised by:
- (a) high exchange rates.
  - (b) poor loan portfolio management.
  - (c) effective loan portfolio management.
  - (d) long-term lending plans.
- (viii) Which of the following is not a characteristic of good money?
- (a) It must be durable.
  - (b) It must be acceptable.
  - (c) It must be scarce.
  - (d) It must serve as a medium of exchange.
- (ix) The circular flow of income shows:
- (a) the flow of resources between the household sector and the business sector.
  - (b) the flow of resources between the household sector and the government sector.
  - (c) the flow of resources between the firms and the government sector.
  - (d) the flow of resources between the government and the foreign sector.
- (x) Which of the following is the best way of controlling demand – pull inflation?
- (a) By use of expansionary monetary policy.
  - (b) By use of restrictive monetary policy.
  - (c) By use of expansionary fiscal policy.
  - (d) Increase in the level of exports.

- (xi) Unemployment caused by the general low level of aggregate demand is called:
- (a) structural.
  - (b) regional.
  - (c) cyclical.
  - (d) seasonal.
- (xii) Which of the following serves as a source of revenue to finance a budget deficit?
- (a) Printing of more money.
  - (b) Taxation.
  - (c) Tariffs on imported products.
  - (d) Internal borrowing.
- (xiii) Restrictions in international trade are important because:
- (a) infant industries are protected to avoid unfair competition.
  - (b) international trade is not fair trade.
  - (c) international trade always brings about balance of payments deficit.
  - (d) international trade brings about new technology.
- (xiv) A tax is regressive if:
- (a) a high income earner pays more of the tax than a low income earner.
  - (b) it is a direct tax rather than an indirect tax.
  - (c) the same amount of tax is paid at all levels of income.
  - (d) the average rate of tax decreases as income increases.
- (xv) Which of the following is an instrument of fiscal policy?
- (a) Limits on wage increases in the private sector.
  - (b) Changes in the level of government expenditure.
  - (c) Directly raising the level of growth of money supply.
  - (d) Management of the exchange rate.
- (xvi) The table below shows the possible production from identical units of resources of two products in two countries:

Country	Commodity S	Commodity T
X	30	40
Y	40	60

Which of the following statements is correct?

- (a) Country X has an absolute advantage in the production of commodity T.
  - (b) Country X has a comparative advantage in the production of commodity T.
  - (c) Country X has a comparative advantage in the production of commodity S.
  - (d) Country X has an absolute advantage in the production of commodity S.
- (xvii) Interest is the payment made for the use of:
- (a) Land.
  - (b) Natural resources.
  - (c) Capital.
  - (d) Human resources.
- (xviii) The optimum firm is:
- (a) The firm with the lowest costs of production.
  - (b) The firm with the highest levels of sales.
  - (c) The best-known firm in the market.
  - (d) The best or most efficient type of firm.
- (xix) Which of the following are classified as commercial bank liabilities?
- (i) current accounts.
  - (ii) deposit accounts.
  - (iii) coins and notes.
  - (iv) balances with the Bank of Uganda.
- (a) (i) and (iii).
  - (b) (i) and (ii).
  - (c) (ii), (iii) and (iv).
  - (d) (i), (ii), (iii) and (iv).
- (xx) Given that, the import price index is 102, and the export price index is 106. The terms of trade are:
- (a) 103.9
  - (b) 96.2
  - (c) 4
  - (d) 208.

**SECTION B**

**Question 2**

- (a) Outline six causes of income inequalities in your country. (6 marks)
  - (b) What are the demerits of income inequalities? (6 marks)
  - (c) Describe **four** policy measures for reducing income inequalities in your country. (8 marks)
- (Total 20 marks)**

**Question 3**

- (a) Define the term privatisation. (2 marks)
  - (b) Account for the privatisation of public enterprises in your country. (10 marks)
  - (c) What are the arguments against the privatisation of public enterprises in your country? (8 marks)
- (Total 20 marks)**

**Question 4**

- (a) What are the causes of inflation in an economy? (10 marks)
  - (b) Explain the measures that are being taken to solve the problem of inflation in your country. (10 marks)
- (Total 20 marks)**

**Question 5**

- (a) What is meant by monetary policy? (4 marks)
  - (b) Outline six tools of monetary policy. (6 marks)
  - (c) What factors limit the operation of monetary policy in your country? (10 marks)
- (Total 20 marks)**

**Question 6**

- (a) Distinguish between:
- (i) recurrent expenditure and capital expenditure. (4 marks)
  - (ii) a surplus budget and deficit budget. (4 marks)
- (b) Account for the persistent budget deficit in Uganda. (12 marks)
- (Total 20 marks)**

**Question 7**

- (a) What are multi-national corporations? (4 marks)
- (b) Discuss the:
- (i) merits and, (8 marks)
  - (ii) demerits of multi-national corporations. (8 marks)
- (Total 20 marks)**