

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

WEDNESDAY, 17 DECEMBER 2003

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) If average total cost is falling, marginal cost must:
 - (a) also be falling.
 - (b) be rising.
 - (c) equal average cost.
 - (d) be less than average cost.
- (ii) Adjusting NNP at factor cost to GNP at market price involves:
 - (a) Adding capital consumption and adding an inflation allowance.
 - (b) Adding depreciation and adding net property income from abroad.
 - (c) Adding indirect taxes, adding depreciation and subtracting subsidies.
 - (d) Adding net property income from abroad and subsidies, and subtracting indirect taxes.
- (iii) The relationship between fillets of fish and fishmeal fertilizer is one of:
 - (a) Joint supply.
 - (b) Joint demand.
 - (c) Competing supply.
 - (d) Derived demand.
- (iv) Multinational companies are those which:
 - (a) Invest in overseas government stocks.
 - (b) Sell exports.
 - (c) Have shareholders living in more than one country.
 - (d) Undertake direct foreign investment.
- (v) Substitution effect is the:-
 - (a) Purchasing more of a good because its price fall has made it relatively cheaper.
 - (b) Purchasing more of a good because the fall in its price has made the consumer better off.
 - (c) Extra benefit or satisfaction from the consumption of one more unit of a good.
 - (d) Different goods that serve the same purpose and yield same satisfaction.
- (vi) Which of the following equations explains the quantity theory of money?
 - (a) $TV = M/P$.
 - (b) $MV = PT$.
 - (c) $MP = VT$.
 - (d) $MT = PV$.

- (vii) Which of the following would be bought and sold in open market operations?
- (a) Bills of exchange.
 - (b) Shares of private companies.
 - (c) Foreign exchange reserves.
 - (d) Government securities.
- (viii) Which of the following situations is an example of technological unemployment?
- (a) A period of wet weather forces building firms to declare workers redundant.
 - (b) Decline in world trade causes export oriented firms to reduce the size of their labour force.
 - (c) A firm introduces electric typewriters and reduces the number of typists employed by 25%.
 - (d) The imposition of a tax on second hand clothes forces tailoring firms to make some employees redundant.

The following information relates to Questions (ix) – (xi).

A multi-citizen lived in three countries, each of which operated a system of personal income tax.

The table below shows the amount of tax he would have had to pay at different levels of income in the three countries. Study it and answer questions (ix) to (xi):-

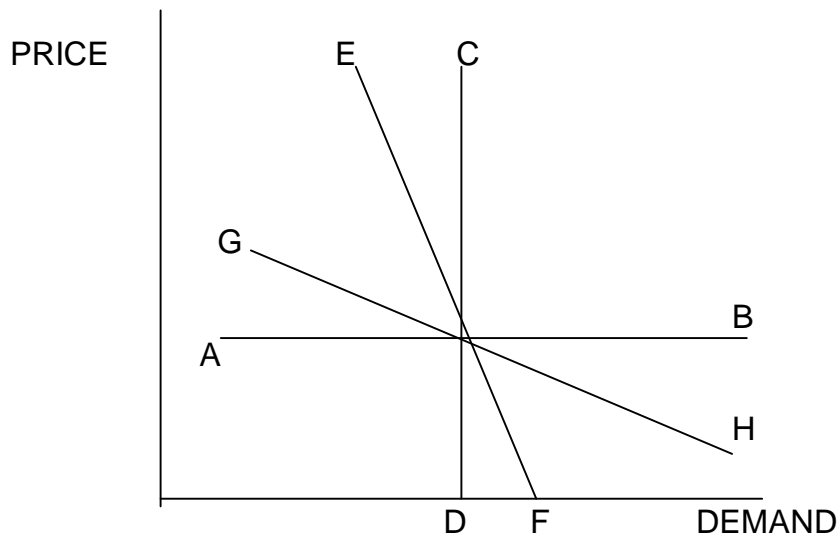
Income Level	Tax Payable		
	Country A	Country B	Country C
Shs	Shs	Shs	Shs
16,000	1,600	1,200	1,200
18,000	1,800	1,400	1,200
20,000	2,000	1,600	1,200

- (ix) What type of tax is imposed in Country A?
- (a) Regressive tax.
 - (b) Proportional tax.
 - (c) Progressive tax.
 - (d) Indirect tax.
- (x) What type of tax is imposed in Country C?
- (a) Regressive tax.
 - (b) Sales tax.
 - (c) Proportional tax.
 - (d) Direct tax.

- (xi) What is the percentage of income going in taxation at income level Shs. 16,000 in Country B?
- (a) 8
 - (a) 10
 - (a) 7.8
 - (a) 7.5
- (xii) Assuming that other factors remain constant, an increase in liquidity preference will lead to:
- (a) A fall in interest rates.
 - (a) Increased holdings of money by the public.
 - (a) A fall in the supply of money.
 - (a) More loanable funds coming on to the market.
- (xiii) Which of the following are costs associated with economic growth?
- (i) Extra production causes damage to the environment.
 - (ii) Distortion of traditional values and lifestyles.
 - (iii) Exploitation of many idle resources.
 - (iv) Generation of structural unemployment.
 - (v) High level of technological progress.
- (a) (i), (ii) and (iii).
 - (b) (i), (iii) and (v).
 - (c) (i), (ii) and (iv).
 - (d) (i) and (iv).
- (xiv) If there's a deflationary gap in the economy, which of the following measures would be appropriate to solve it?
- (a) An increase in the rate of income tax.
 - (b) A reduction in the amount of government spending.
 - (c) A reduction in the rate of sales tax.
 - (d) A restriction on bank lending to individuals and businesses.
- (xv) Trade union members would achieve an increase in wages if:
- (a) The employer earns normal profits.
 - (b) The demand for the finished products is totally inelastic.
 - (c) It is a labour-intensive industry with wages constituting a high proportion of total cost.
 - (d) The economy is depressed and the rate of unemployment is high.
- (xvi) Which of the following does not cause cost-push inflation?
- (a) A rise in demand for consumer goods.
 - (b) A rise in the level of indirect taxation.
 - (c) A rise in union wage rates.
 - (d) A rise in the rate of interest paid on borrowed funds.

Use the following methods of raising capital by companies in the private sector to answer Questions (xvii) and (xviii).

- (i) Rights issue of shares.
 - (ii) Bank overdraft.
 - (iii) Bills of exchange.
 - (iv) Leasing.
 - (v) New issue of shares.
 - (vi) Retained profits.
 - (vii) Hire purchase.
 - (viii) Trade credit.
- (xvii) Which of the above would be the most appropriate methods for building a new factory?
- (a) (i), (v) and (vi).
 - (b) (ii), (iii) and (iv).
 - (c) (v), (vi) and (viii).
 - (d) (iii), (iv) and (v).
- (xviii) Which of the following would be the most appropriate for financing office equipment?
- (a) (i) and (ii).
 - (b) (iv) and (vii).
 - (c) (iii) and (iv).
 - (d) (v) and (viii).
- (xix) Study the diagram below which illustrates several demand curves:



Which of the above demand curves best illustrates the demand for one brand of petrol?

- (a) AB
- (b) CD
- (c) EF
- (d) GH

(xx) A unified currency is one where:-

- (a) The currency is fully backed up by foreign currency e.g. the US dollar or gold.
- (b) The currency rate is fixed by seasonal factors.
- (c) The currency value is fixed by the central bank e.g. the Uganda Shilling.
- (d) An independent currency is replaced by another e.g. the Euro.

SECTION B

Question 2

- (a) Define the term National Income. (2 marks)
- (b) Study the table below showing national income statistics in an economy, and answer the questions that follow:

		Shs million
1.	Gross Domestic Product at market price (GDP_{mp})	52
2.	Gross National Product at market price (GNP_{mp})	50
3.	Gross Domestic Product at factor cost (GDP_{fc})	44
4.	Gross National Product at factor cost (GNP_{fc})	42
5.	National income	37

- (i) What is the value of the allowance for indirect taxes? (2 marks)
- (ii) What is the value allowed for capital consumption? (2 marks)
- (iii) What is the value of the allowance for net property income from abroad? (2 marks)
- (c) Suggest six steps that should be taken to increase the level of national income in your country.

(12 marks)
(Total 20 marks)

Question 3

- (a) What does the term economic planning mean? (2 marks)
 - (b) Distinguish between:
 - (i) A comprehensive plan and a sectoral plan. (4 marks)
 - (ii) Decentralized planning and centralized planning. (4 marks)
 - (c) What factors limit effective implementation of plans in developing countries? (10 marks)
- (Total 20 marks)**

Question 4

- (a) What is meant by a subsistence wage? (2 marks)
 - (b) Outline four ways in which wages are determined in your country (8 marks)
 - (c) Account for the wage differences in your country. (10 marks)
- (Total 20 marks)**

Question 5

- (a) Distinguish between voluntary unemployment and involuntary unemployment. (4 marks)
 - (b) Outline four causes of voluntary unemployment. (8 marks)
 - (c) Explain four steps being undertaken to solve the unemployment problem in your country. (8 marks)
- (Total 20 marks)**

Question 6

- (a) Define the term trade liberalization. (2 marks)
 - (b) Describe any three non-tariff barriers to trade in your country. (6 marks)
 - (c) Discuss six demerits of trade liberalization. (12 marks)
- (Total 20 marks)**

Question 7

- (a) Distinguish between a national debt and a public debt (6 marks)
 - (b) Examine the merits and demerits of government borrowing. (12 marks)
- (Total 20 marks)**