

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 17 JUNE 2003

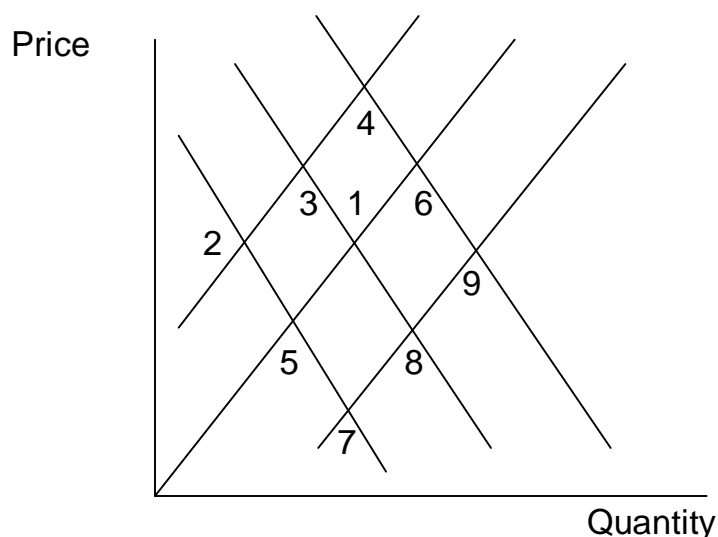
INSTRUCTIONS TO CANDIDATES:

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

- (i) Market demand is:
- (a) Demand at prevailing average prices.
 - (b) The sum of all individual demands.
 - (c) Ability to pay the price asked.
 - (d) Demand in a perfectly free market.

Use the following demand and supply curves graph to answer questions (ii) and (iii):



The original demand and supply curves intersect at point 1.

- (ii) Assume that there is an increase in supply, and a decrease in demand, leading to a shift of the curves. In that case, the new equilibrium point would be:
- (a) 7
 - (b) 6
 - (c) 9
 - (d) 8
- (iii) Assume that both supply and demand decrease. The new equilibrium point would be:
- (a) 3
 - (b) 2
 - (c) 5
 - (d) 4

- (iv) A good must be capable of yielding satisfaction. This quality is known to the economist as:
- (a) Utility.
 - (b) Worth.
 - (c) Satisfiability.
 - (d) Serviceableness.
- (v) Which of the following persons is/are engaged in “secondary production”?
- (i) A bricklayer.
 - (ii) An automobile assembly worker.
 - (iii) An accountant.
 - (iv) A cinema projectionist.
- (a) (i).
 - (b) (ii) and (iii).
 - (c) (i), (ii), (iii), and (iv).
 - (d) (i) and (ii).
- (vi) Money, which is not, in itself, capital, may become capital only when:
- (a) It is invested abroad.
 - (b) It is invested for the short term.
 - (c) It gives command over producers’ goods.
 - (d) It gives command over consumers’ goods.
- (vii) According to Malthus, the only hope for balancing food resources and population lie in:
- (a) Checking increases in the price of food.
 - (b) Increasing the mobility of labour.
 - (c) Increasing numbers of immigrants.
 - (d) Checking the growth in population.
- (viii) “Sooner or later, the Law of Diminishing Returns must operate”. This statement applies to:
- (a) Agriculture only.
 - (b) Mining only.
 - (c) All extractive industries in all types of economies.
 - (d) Agriculture and mining in an unplanned economy only.

- (ix) “Normal price” is the price:
- (a) Generally obtained in long-period equilibrium.
 - (b) The average consumer is prepared to pay.
 - (c) Charged by the retailer in normal trading periods.
 - (d) In normal conditions in a free market.
- (x) The “income effect” of a rise in the price of a commodity is the:
- (a) Increase in the consumer’s purchasing power.
 - (b) Decrease in the short-term demand for the commodity.
 - (c) Fall in the consumer’s purchasing power.
 - (d) Increase in the price of substitute commodities.
- (xi) The Organisation of Petroleum Exporting Countries (OPEC) is an example of the type of producers’ organisation known as:
- (a) Marketing Board.
 - (b) Cartel.
 - (c) Trust.
 - (d) Producers’ co-operative.

Use the following information to answer questions (xii) and (xiii).

Total of all expenditure incurred during the year	Shs. 800 billion.
Indirect taxes on goods and services	Shs. 80 billion.
Capital consumption	Shs. 60 billion.

- (xii) Gross national expenditure at factor cost is
- (a) Shs. 880 billion.
 - (b) Shs. 820 billion.
 - (c) Shs. 740 billion.
 - (d) Shs. 720 billion.
- (xiii) Net national expenditure is:
- (a) Shs. 740 billion.
 - (b) Shs. 660 billion.
 - (c) Shs. 600 billion.
 - (d) Shs. 140 billion.
- (xiv) Real wages are wages in terms of:
- (a) The privileges attached to a job.
 - (b) The training required in order to earn them.
 - (c) The goods and services they will buy.
 - (d) Future employment prospects.

- (xv) Which of the following can be classified as a function of money in a developed economy?
- (i) Medium of exchange.
 - (ii) Measure of value.
 - (iii) Store of value.
 - (iv) Hedge against inflation.
- (a) (i), (ii) and (iii).
 - (b) (i) and (ii).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (xvi) The marginal propensity to save is the ratio of:
- (a) Rate of interest and export of capital goods.
 - (b) Rate of interest and rate of unemployment.
 - (c) Change in savings to change in consumption of necessities.
 - (d) Change in savings to change in incomes.
- (xvii) If the demand for a commodity is perfectly elastic, the incidence of tax on that commodity will be (other things being equal) entirely on the:
- (a) Seller.
 - (b) Buyer.
 - (c) Government.
 - (d) Tax authority.
- (xviii) The “floating debt” portion of the National Debt represents
- (a) Medium-term borrowing.
 - (b) Short-term borrowing.
 - (c) Long-term borrowing.
 - (d) External borrowing.
- (xix) If there’s a deficit on a country’s balance of payments, it can generally be dealt with directly and in part by:
- (a) Importing gold.
 - (b) Increasing foreign investments.
 - (c) Selling foreign investments.
 - (d) Increasing wages of workers in the export trade.

- (xx) “Arbitrage” is the name given to the process involving:
- (a) The settling of a dispute between dealers in foreign currencies.
 - (b) The hoarding of foreign currencies for use in smuggling.
 - (c) Changes in the general level of prices resulting from a sudden deflation of an exporting country’s currency.
 - (d) Simultaneously buying foreign exchange in one market and selling it in another at a higher price.

SECTION B

Question 2

- (a) Outline six features of a perfectly competitive market. **(6 marks)**
 - (b) Explain how a firm under perfect competition determines its output, price and profits in the:
 - (i) Short run. **(7 marks)**
 - (ii) Long run. **(7 marks)**
- (Total 20 marks)**

Question 3

- (a) Distinguish between cash ratio and liquidity ratio. **(4 marks)**
 - (b) Calculate the credit created where:
 - The initial deposit = Shs. 30,000.
 - Cash ratio = 10%.
 - And three banks are involved.**(4 marks)**
 - (c) Examine six factors limiting credit creation in your country. **(12 marks)**
- (Total 20 marks)**

Question 4

- (a) Outline four sources of public revenue. **(4 marks)**
 - (b) Distinguish between taxation financing and debt financing. **(4 marks)**
 - (c) Why does Uganda usually resort to ‘debt financing’ rather than ‘taxation financing’?
- (12 marks)**
(Total 20 marks)

Question 5

- (a) Outline five factors that affect the population growth of a country?
(5 marks)
 - (b) What causes a decline in the population of a country?
(5 marks)
 - (c) Explain five reasons why the population growth rate declines as a country develops.
(10 marks)
- (Total 20 marks)**

Question 6

- (a) Define the term “collective bargaining”.
(4 marks)
 - (b) Outline four factors that determine the strength of a trade union.
(4 marks)
 - (c) Explain six circumstances under which workers may demand for higher wages.
(12 marks)
- (Total 20 marks)**

Question 7

- (a) Why should developing countries industrialize?
(4 marks)
 - (b) Discuss the advantages and disadvantages of the import substitution strategy of industrial development.
(16 marks)
- (Total 20 marks)**