

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 22 JUNE 2004

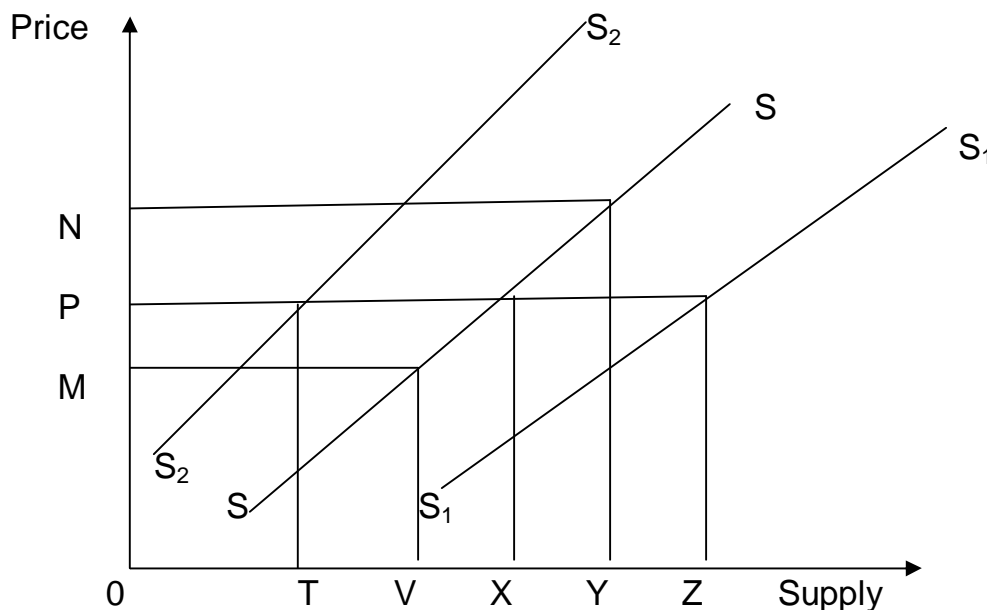
INSTRUCTIONS TO CANDIDATES:

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) Who makes the decision in a market economy?
- (a) Consumers.
 - (b) Business firms.
 - (c) The state.
 - (d) The employees.
- (ii) If a new suit costs Shs 400, a pair of shoes costs Shs 80 and a paper back book costs Shs 20, the opportunity cost of a new suit is:
- (a) 5 pairs of shoes and 20 paper back books
 - (b) 1 pair of shoes and 14 paper back books.
 - (c) 5 pairs of shoes and 4 paper back books.
 - (d) 3 pairs of shoes and 8 paper back books.
- (iii) The following is a list of the major costs incurred by a firm;
- (i) Rent of buildings.
 - (ii) Raw materials.
 - (iii) Wages and salaries.
 - (iv) Depreciation of machinery.
 - (v) Power supplies.
- Which of the above costs may be classified as variable costs of production?
- (a) (i) and (iv).
 - (b) (i), (ii), (iii) and (iv).
 - (c) (i), (iv) and (v).
 - (d) (ii), (iii) and (v).
- (iv) If an iron and steel manufacturer merges with another firm producing durable consumer goods such as refrigerators, deep freezers, washing machines and cookers, this is would be a:
- (a) forward vertical merger.
 - (b) backward vertical merger.
 - (c) horizontal merger.
 - (d) lateral merger.
- (v) Which of the following factors led to the establishment of a cement industry in Tororo?
- (a) Adequate and abundant labour supply.
 - (b) Availability of the main raw materials.
 - (c) A large market for cement.
 - (d) Adequate and regular power supply.

Use the diagram below to answer question (vi) – (vii).



In each question assume that the firm starts from an equilibrium position where price is OP and supply is OX.

- (vi) If the workers succeed in obtaining an increase in wages, what will be the firm's new level of supply?
- OT
 - OV
 - OY
 - OZ
- (vii) If the firm introduces a new and more efficient machine, leading to a reduction in costs, what will be its new level of supply?
- OT
 - OV
 - OY
 - OZ
- (viii) Which of the following situations would be favorable to a trade union trying to achieve an increase in wages?
- The demand for the finished products is totally inelastic.
 - The employer earns normal profits.
 - It is a labour intensive industry with wages constituting a high proportion of total costs.
 - The economy is depressed and the rate of unemployment is high.

- (ix) Assuming that other factors remain constant, an increase in liquidity preference will lead to:
- (a) A fall in interest rates.
 - (b) A fall in the supply of money.
 - (c) More loanable funds coming on the market.
 - (d) Increased holdings of money by the public.
- (x) Which of the following is not a consequence of hyper-inflation?
- (a) Deterioration in the balance of payments.
 - (b) A higher level of production and investment.
 - (c) A lower level of saving.
 - (d) Redistribution of income in favour of the stronger groups in society.
- (xi) Which of the following would not be included in measurement of national income?
- (a) Salaries of government ministers.
 - (b) Salaries of teachers.
 - (c) Imputed value for rent in owner occupied houses.
 - (d) Income received for unemployment benefit.
- (xii) In which of the following situations would the level of national income remain unchanged?
- (a) When withdrawals exceed injections.
 - (b) When expenditure equals injections.
 - (c) When withdrawals equal injections.
 - (d) When expenditure is greater than income.
- (xiii) The national debt is most likely to be considered a burden to future generations if:
- (a) Part of the borrowing is financed by the banking sector.
 - (b) Interest rates are falling.
 - (c) It was incurred in order to finance consumption expenditure.
 - (d) The debt is short term rather than long term.
- (xiv) Unemployment, caused by the general low level of aggregate demand is called:
- (a) Structural.
 - (b) Regional.
 - (c) Frictional.
 - (d) Cyclical.

- (xv) Which of the following will affect the speculative demand for money?
- (a) The expected future level of the rate of interest.
 - (b) The value of the marginal propensity to consume.
 - (c) The income velocity of circulation.
 - (d) A fall in the number of transactions.
- (xvi) Which group would tend to do best during a period of inflation?
- (a) People living on interests from past savings.
 - (b) Members of a trade union with a strong bargaining power.
 - (c) Creditors.
 - (d) Taxpayers.
- (xvii) A devaluation of the exchange rate will improve the balance of trade if:
- (i) The sum of the price elasticities for exports and imports adds up to more than one.
 - (ii) There is some spare capacity in the economy.
 - (iii) Exporters do not take the opportunity to raise their profit margins.
- (a) (i).
 - (b) (ii).
 - (c) (i) and (ii).
 - (d) (iii).
- (xviii) The IMF imposes restrictions on countries, which borrow foreign currency so that:
- (i) Corrective payments policies are introduced by the debtor country.
 - (ii) IMF has reason to expect the loan to be repaid after a reasonable period.
 - (iii) Private commercial bank loans are more likely to be forthcoming.
- (a) (i).
 - (b) (ii).
 - (c) (i) and (ii).
 - (d) (i), (ii) and (iii).
- (xix) A group of countries which allows free trade amongst its members and imposes a common external tariff against non-members is called:
- (a) A free trade area.
 - (b) A customs union.
 - (c) A trading zone.
 - (d) A currency bloc.

- (xx) Which of the following costs are associated with economic growth?
- (i) Extra production causes damages to the environment.
 - (ii) Growth involves change and the generation of structural unemployment.
 - (iii) Investment expenditure to generate growth will involve a reduction in consumption levels in the short run.
- (a) (i) and (ii).
 - (b) (iii).
 - (c) (i), (ii) and (iii).
 - (d) (ii) and (iii).

SECTION B

Question 2

- (a) Define the following terms:
- (i) Consumers' surplus. (1 mark)
 - (ii) Marginal utility. (1 mark)
- (b) (i) State the law of diminishing marginal utility. (2 marks)
- (ii) What is the relationship between consumers' surplus and diminishing marginal utility? (2 marks)
- (c) What factors determine the elasticity of demand for maize meal, in Uganda? (14 marks)
- (Total 20 marks)**

Question 3

- (a) Distinguish between inflationary gap and deflationary gap. (4 marks)
- (b) Examine the policies that a country should adopt to close:
- (i) A deflationary gap. (8 marks)
 - (ii) An inflationary gap. (8 marks)
- (Total 20 marks)**

Question 4

- (a) Distinguish between:
- (i) Pure competition and perfect competition. (2 marks)
 - (ii) Monopoly and monopolistic competition (2 marks)
- (b) Outline six characteristics of a perfectly competitive market. (6 marks)
- (c) Explain five advantages of monopolies in Uganda. (10 marks)
- (Total 20 marks)**

Question 5

- (a) Distinguish between:
- (i) Import substitution and export promotion. (2 marks)
 - (ii) Balanced growth and unbalanced growth. (2 marks)
 - (iii) Economic growth and Economic development. (4 marks)
- (b) Examine six factors necessary for enhancing growth in your economy. (12 marks)
- (Total 20 marks)**

Question 6

- (a) What is meant by economic integration? (2 marks)
- (b) Differentiate between:
- (i) Preferential trade area and free trade area. (2 marks)
 - (ii) Customs union and common market. (2 marks)
- (c) Discuss seven merits of economic integration. (14 marks)
- (Total 20 marks)**

Question 7

- (a) Define the term public finance. (2 marks)
- (b) Outline six sources of public finance. (6 marks)
- (c) What is the role of public finance in your country? (12 marks)
- (Total 20 marks)**