

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

WEDNESDAY, 14 DECEMBER 2005

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) Choice arises out of:
 - (a) Scarcity.
 - (b) Opportunity cost.
 - (c) Excess demand.
 - (d) Scale of preference.
- (ii) An inferior good is:
 - (a) a good for which the demand rises as income falls.
 - (b) Any good for which the demand falls as income rises.
 - (c) A good for which the quantity demanded decreases as price falls.
 - (d) A good for which the demand rises as income rises.
- (iii) What advice would you give to a producer who wants to maximize total revenue (TR)?
 - (a) To charge relatively higher prices.
 - (b) To increase quantity produced for sale.
 - (c) To charge relatively lower prices.
 - (d) To decrease quantity produced for sale.
- (iv) Define a demand schedule.
 - (a) A graphical representation of demand and price.
 - (b) A representation of the market demand.
 - (c) A tabular representation of market demand.
 - (d) A tabular representation of quantity demanded and price.
- (v) The law of variable proportions assumes that all:
 - (a) factors are variable.
 - (b) factors are fixed.
 - (c) fixed factors have fixed technology.
 - (d) variable factors are homogeneous.
- (vi) Optimum production is where resources:
 - (a) yield total maximum output
 - (b) are maximally used
 - (c) yield maximum output per worker
 - (d) yield minimum output per worker.

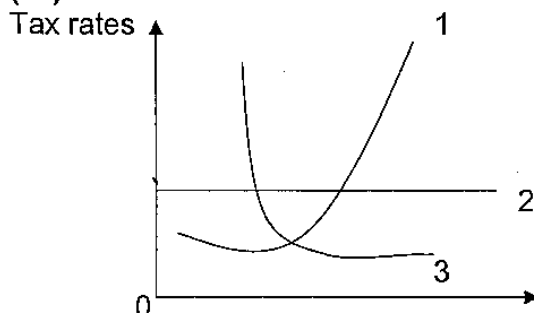
- (vii) An effective maximum price will:
- (a) Clear the market.
 - (b) Result in a shortage.
 - (c) Result in a surplus.
 - (d) Result in an increase in output.
- (viii) Total cost equals the:
- (a) sum of fixed and variable costs.
 - (b) product of fixed and variable costs.
 - (c) sum of average cost and variable costs.
 - (d) ratio of fixed and variable costs.
- (ix) Which of the following measures would be appropriate to close a deflationary gap?
- (a) An increase in the rate of income tax.
 - (b) A reduction in the rate of sales tax.
 - (c) A reduction in government expenditure.
 - (d) A restrictive monetary policy.
- (x) The trade union members will achieve an increase in wages when the:
- (a) demand for the finished product is inelastic.
 - (b) employer earns normal profit.
 - (c) wages were increased earlier on.
 - (d) workers enjoy a high standard of living.
- (xi) The following are qualities of good money except:
- (a) Portability.
 - (b) Divisibility.
 - (c) Acceptability of value.
 - (d) Store of wealth.
- (xii) Calculate the total deposits for a cash ratio of 20% and an initial deposit for 20 million.
- (a) Shs 200 million.
 - (b) Shs 150 million
 - (c) Shs 100 million
 - (d) Shs 20 million

Use the following table showing the terms of trade in Country A to answer questions (xiii) and (xiv):

Year	Import Price Index	Export Price Index
2002	100	100
2003	105	108
2004	109	106

- (xiii) What were the terms of trade in 2003?
- 97.2
 - 105.24
 - 99.4
 - 102.85
- (xiv) Which of the following statements best explains the terms of trade of **Country A** in 2004?
- The terms of trade are improving.
 - The terms of trade are constant.
 - The terms of trade are unfavourable.
 - The terms of trade are favourable.
- (xv) Which of the following is **not** Adam Smith's canon of taxation?
- Equity.
 - Flexibility.
 - Economy.
 - Convenience.
- (xvi) Which group would tend to suffer most during a period of inflation?
- Pensioners.
 - Trade union activists.
 - Debtors.
 - Creditors.
- (xvii) An example of an indirect tax is:
- Income tax.
 - Capital gains tax.
 - VAT.
 - Capital transfer tax.
- (xviii) All the following are functions of commercial banks except:
- Maintenance of different accounts on behalf of the customers.
 - Offering loans and overdraft facilities.
 - Discounting of bills.
 - Lender of last resort.

Use the following diagram showing tax rates to answer questions (xix) and (xx):



(xix) The type of tax represented by curve 3 is:

- (a) progressive tax.
- (b) regressive tax.
- (c) proportional tax.
- (d) aggressive tax.

(xx) The tax shown by curve 1 is mainly designed to:

- (a) redistribute incomes.
- (b) increase people's incomes.
- (c) reduce people's incomes.
- (d) increase people's aggregate demand.

SECTION B

Question 2

(a) State the Law of Demand.

(2 marks)

(b) Distinguish between a change in demand and a change in quantity demanded.

(8 marks)

(c) Account for an increase in demand for a commodity.

(10 marks)

(Total 20 marks)

Question 3

(a) Using examples, distinguish between horizontal merging and vertical merging of firms.

(6 marks)

(b) State four advantages of horizontal merging of firms.

(4 marks)

(c) Explain five factors that make merging of firms difficult.

(10 marks)

(Total 20 marks)

Question 4

- (a) What is meant by the term collective bargaining?
(2 marks)
 - (b) Outline **four** features of trade unions in developing countries.
(4 marks)
 - (c) Why do trade union members demand for higher wages?
(14 marks)
- (Totals 20 marks)**

Question 5

- (a) Differentiate between underpopulation and overpopulation.
(4 marks)
 - (b) Explain the concept of 'optimum population'.
(4 marks)
 - (c) Explain **six** problems of an increasing population in an economy.
(12 marks)
- (Total 20 marks)**

Question 6

- (a) Define the following:
 - (i) Disguised unemployment.
(2 marks)
 - (ii) Underemployment.
(2 marks)
 - (b) Give **four** causes of disguised unemployment in your country.
(4 marks)
 - (c) Explain **six** measures that should be taken to increase the level of employment in your country?
(12 marks)
- (Total 20 marks)**

Question 7

- (a) What is meant by regional economic integration?
(2 marks)
 - (b) Mention any **two** conditions necessary for the success of regional economic integration.
(2 marks)
 - (c) Examine **four** merits and **four** demerits of regional economic integration.
(16 marks)
- (Total 20 marks)**