

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

WEDNESDAY, 22 JUNE 2005

INSTRUCTIONS TO CANDIDATES:

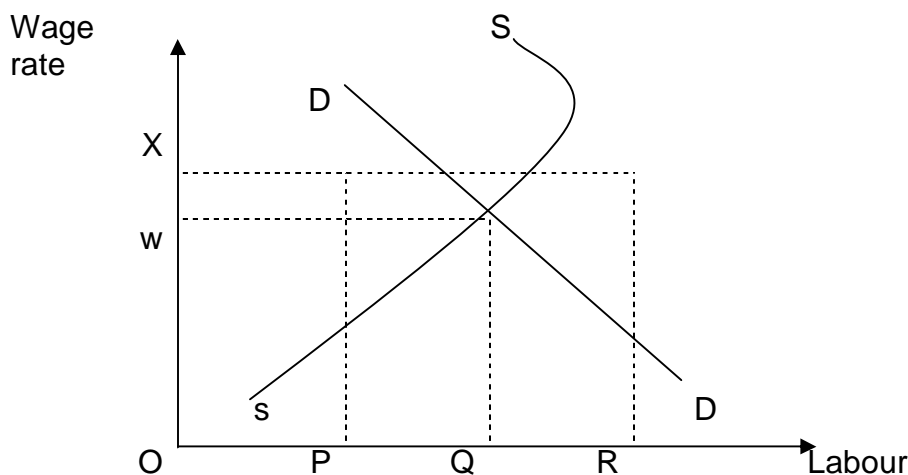
1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions from Section B.
3. Section **A** has twenty compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **six** questions and only **four** are to be attempted. Each question carries 20 marks.
5. Please, read further instructions on the answer book.

SECTION A**Question 1**

- (i) The most fundamental problem in resource allocation is:
 - (a) Choice.
 - (b) Scarcity.
 - (c) Opportunity cost.
 - (d) Consumption.
- (ii) When total utility is at a maximum, marginal utility is said to be:
 - (a) Zero.
 - (b) Negative.
 - (c) Increasing.
 - (d) Declining.
- (iii) Price elasticity of demand for cigarettes is said to be:
 - (a) Elastic.
 - (b) Unitary.
 - (c) Inelastic.
 - (d) Perfectly inelastic.
- (iv) Maximum price legislation is also known as:
 - (a) Price floor.
 - (b) Price support.
 - (c) Price wall.
 - (d) Price ceiling.
- (v) If the price of one commodity falls, and the demand of the other falls, the commodities are said to be:
 - (a) Complements.
 - (b) Substitutes.
 - (c) Inferior and normal respectively.
 - (d) Having no relationship at all.
- (vi) Under what circumstances is the long-run average cost curve falling?
 - (a) Economies of scale.
 - (b) Diseconomies of scale.
 - (c) Constant returns to scale.
 - (d) Diminishing returns.
- (vii) Under what market structure is the demand curve kinked?
 - (a) Perfect competition.
 - (b) Monopoly.
 - (c) Oligopoly.
 - (d) Duopoly.

- (viii) In national income expression, GNP represents:
- The value of output produced exclusively within the domestic economy excluding earnings from abroad.
 - The value of output produced by the government sector excluding net earnings from abroad.
 - The value of output produced by the three sectors of the economy.
 - The value of output produced within the national economy including earnings from abroad.
- (ix) Which of the following factors of production is the most immobile?
- Land.
 - Capital.
 - Labour.
 - Entrepreneurship.
- (x) Which of the following equations explains the quantity theory of money?
- $TV = MP$.
 - $MV = PT$.
 - $MP = VT$.
 - $MT = PV$.

Study the diagram below showing supply and demand for labour.



- (xi) If a trade union succeeds in raising wage rates from OW to OX , what would be the extent of unemployment of workers?
- OP .
 - PQ .
 - PR .
 - QR .

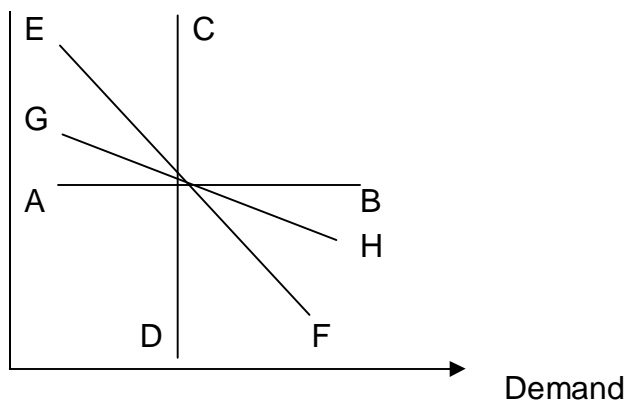
- (xii) Which of the following is not a reason for protectionism?
- (a) To protect a higher level of employment.
 - (b) To protect newly established industries.
 - (c) To protect a strategic industry.
 - (d) To correct a balance of payments surplus.
- (xiii) Which of the following factors contributes to cost-push inflation?
- (i) An expansion of money supply by the banking system.
 - (ii) An increase in interest rates.
 - (iii) Higher import prices.
 - (iv) An excess of demand in the economy.
 - (v) Higher wages.
- (a) (ii), (iii) and (v).
 - (b) (i), (ii) and (iii).
 - (c) (i), (ii) and (iv).
 - (d) (iii), (iv) and (v).
- (xiv) A currency that is freely convertible is one:
- (a) Whose value is determined by free market supply and demand for the currency.
 - (b) Which can be exchanged into another currency without any quota restriction.
 - (c) Which can be exchanged for gold at the central bank.
 - (d) Which is perfectly divisible.
- (xv) 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) An economic union.
 - (c) A customs union.
 - (d) A preferential trade area.
- (xvi) A fall in the level of economic activity will lead to:
- (a) A rise in the level of savings.
 - (b) An increase in consumption expenditure.
 - (c) A rise in import expenditure.
 - (d) A rise in government expenditure.
- (xvii) Which of the following is least likely to happen when the level of National Income rises?
- (a) Taxation receipts will rise.
 - (b) Savings will fall.
 - (c) Exports will rise.
 - (d) Imports will rise.

(xviii) Infant mortality rate refers to the rate at which:

- (a) infants (0 – 1 year) die in a year per one thousand.
- (b) children (1 – 5 years) die in a year per one thousand.
- (c) infants (0 – 1 year) are born in a year per one thousand.
- (d) infants (0 – 1 year) survive in a year per one thousand.

Questions (xix) and (xx) relate to the diagram below which illustrates several demand curves:

Price



(xix) Which of the above demand curves best illustrates the demand for petrol?

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

(xx) Which of the demand curves best illustrates the demand for one brand of petrol?

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

SECTION B

Question 2

- (a) Distinguish between product differentiation and price discrimination. (4 marks)
 - (b) Outline four ways in which monopolies arise. (4 marks)
 - (c) Explain six conditions necessary for the success of price discrimination. (12 marks)
- (Total 20 marks)**

Question 3

- (a) What is the difference between Gross Domestic Product and Gross National Product? (4 marks)
 - (b) Given that: Gross Domestic Product at factor cost is Shs 2,500 million; Net income from abroad is Shs 800 million; and depreciation of capital equipment is Shs 50 million; calculate the Net National Product. (4 marks)
 - (c) Why may per capita income not be a good indicator of standard of living? (12 marks)
- (Total 20 marks)**

Question 4

- (a) Define the following types of taxes:
 - (i) Progressive tax. (2 marks)
 - (ii) Proportional tax. (2 marks)
 - (iii) Regressive tax. (2 marks)
 - (b) Explain any two effects of a regressive tax. (4 marks)
 - (c) What are the causes of low taxable capacity in less developed countries? (10 marks)
- (Total 20 marks)**

Question 5

- (a) Distinguish between balance of trade and balance of payments. (4 marks)
 - (b) Distinguish between the principles of comparative advantage and absolute advantage in international trade. (4 marks)
 - (c) What are the causes of balance of payments deficits in your country? (12 marks)
- (Total 20 marks)**

Question 6

- (a) List four roles of the agricultural sector in your country.
(4 marks)
 - (b) Give six reasons for the poor performance of the agricultural sector in your country.
(6 marks)
 - (c) What steps are being taken to improve the performance of the agricultural sector in your country?
(10 marks)
- (Total 20 marks)**

Question 7

- (a) Distinguish between a commercial bank and a central bank.
(4 marks)
 - (b) Discuss four functions of a:
 - (i) commercial bank. (4 marks)
 - (ii) central bank. (4 marks)
 - (c) Explain four reasons why most commercial banks have not expanded their activities to rural areas in Uganda.
(8 marks)
- (Total 20 marks)**