

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

WEDNESDAY, 21 JUNE 2006

INSTRUCTIONS TO CANDIDATES:

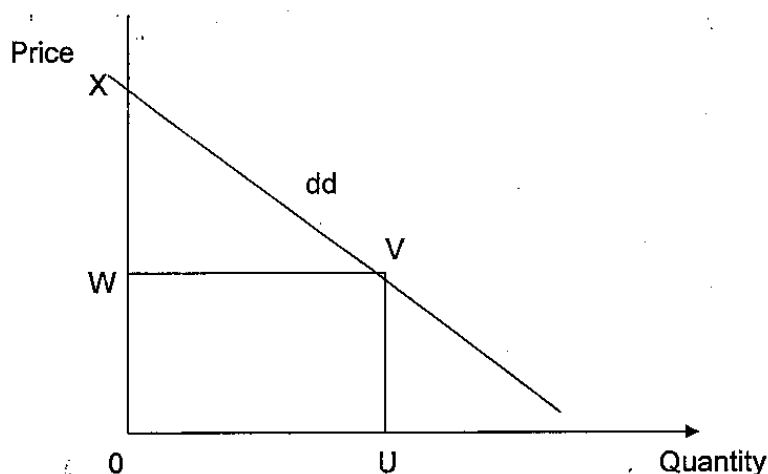
1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions from Section B.
3. Section A has twenty compulsory multiple-choice questions each carrying 1 mark.
4. Section B has **six** questions and only **four** are to be attempted. Each question carries 20 marks.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

SECTION A

Question 1

- (i) The basic and essential economic problems in a community are related to:
- (a) scarcity and wants.
 - (b) choice and scarcity.
 - (c) wants and choice.
 - (d) freedom and choice.
- (ii) Opportunity cost is the cost of a product in terms of:
- (a) the alternative which has been foregone.
 - (b) money.
 - (c) the resources used to produce it.
 - (d) the price the consumers are willing to pay.
- (iii) Which of the following would be classified by an economist as 'land'?
- (i) Kasenyi fishing grounds.
 - (ii) Unexploited oil beds in Lake Albert.
 - (iii) Reclaimed farmlands in Kigezi.
 - (iv) The site for Mukwano Industries.
- (a) (iii).
 - (b) (ii) and (iii).
 - (c) (i), (ii) and (iii).
 - (d) (i), (ii), (iii) and (iv).
- (iv) Which of the following factors influences the efficiency of a country's labour force?
- (a) Family background.
 - (b) Political background.
 - (c) Efficiency of other factors of production.
 - (d) Distance from the place of work.

- (v) Consider the diagram below which shows a demand curve (dd).



Total expenditure on a commodity is represented by the area OUVW.
Consumer's surplus is represented by:

- (a) the area VWX.
 - (b) the area XOUV.
 - (c) $\frac{xw}{xo}$
 - (d) $\frac{ou}{uv}$
- (vi) A manufacturing firm would be classified as a pure monopoly if it were able to:
- (a) control the retail outlet for its product.
 - (b) sell without advertising the product.
 - (c) exclude all potential competitors.
 - (d) sell at a very low price.
- (vii) OPEC is an example of the type of producers' organization known as a:-
- (a) marketing board.
 - (b) producers' co-operative.
 - (c) cartel.
 - (d) trust.
- (viii) Real wages are wages in terms of:
- (a) the privileges attached to the job.
 - (b) the training required in order to earn them.
 - (c) future employment prospects.
 - (d) the goods and services they will buy.

- (ix) Gross Domestic Product at factor cost + net property income from abroad is equal to:
- (a) NNP at market price.
 - (b) GDP at market price.
 - (c) NNP at factor cost.
 - (d) GNP at factor cost.
- (x) The most profitable business of a commercial bank is usually:
- (a) accepting deposits.
 - (b) investing customers' deposits.
 - (c) lending.
 - (d) issuing travellers' cheques.
- (xi) If there's a deficit on a country's Balance of Payments, it can be dealt with by:
- (a) importing more goods.
 - (b) increasing tariffs.
 - (c) increasing incomes of workers.
 - (d) reducing tariffs on imported goods.
- (xii) The marginal propensity to save is the ratio of:
- (a) change in savings to change in income.
 - (b) change in savings to change in consumption of necessities.
 - (c) rate of interest on ones savings.
 - (d) change in savings to change in consumption and income.
- (xiii) An example of complementary supplies is:
- (a) cars and petrol.
 - (b) tea and coffee.
 - (c) coke and gas.
 - (d) pen and Ink.
- (xiv) Which of the following is **not** a form of protection in international trade?
- (a) Import duties.
 - (b) Excise duties.
 - (c) Import quotas.
 - (d) Subsidies to producers of domestic goods.
- (xv) An example of an indirect tax is:
- (a) income tax.
 - (b) capital gains tax.
 - (c) VAT.
 - (d) graduated tax.

- (xvi) The table below shows the possible production from identical units of resources of two products, in two countries.

COUNTRY	GOOD S	GOOD T
X	30	40
Y	40	60

Country X has:

- (a) an absolute advantage in the production of S.
 - (b) a comparative advantage in the production of T.
 - (c) a comparative advantage in both S and T.
 - (d) a comparative advantage in the production of S.
- (xvii) Which of the following is likely to lead to cost push inflation?
- (a) A fall in the level of indirect taxes.
 - (b) A rise in demand for consumer goods.
 - (c) A rise in the rate of interest paid on borrowed funds.
 - (d) An increase in money supply.
- (xviii) Resale price maintenance is the practice of fixing prices for the:
- (a) retail sector by manufacturers.
 - (b) retail sector by the Government.
 - (c) producer by the Government.
 - (d) consumers by the producers.
- (xix) The indifference curve shows all the different combinations of two goods that:
- (a) yield increasing utility to a consumer.
 - (b) reduce utility for a consumer.
 - (c) yield the same utility to a consumer.
 - (d) yield the same output to a producer.
- (xx) Which of the following is an instrument of fiscal policy?
- (a) Directly raising the level of growth of money supply.
 - (b) Private investment finance to industry.
 - (c) Changes in the level of government expenditure.
 - (d) Credit squeeze.

SECTION B

Question 2

- (a) (i) Distinguish between marginal utility and scale of preference. (2 marks)
 - (ii) How is marginal utility related to the scale of preference? (2 marks)
 - (b) State and illustrate the law of diminishing marginal utility. (6 marks)
 - (c) Explain five instances when marginal utility may not decline, despite an increase in consumption. (10 marks)
- (Total 20 marks)**

Question 3

- (a) How does individual demand differ from market demand? (4 marks)
 - (b) State **four** reasons why people demand for goods. (4 marks)
 - (c) Explain **six** factors that influence the quantity demanded of a good in an economy. (12 marks)
- (Total 20 marks)**

Question 4

- (a) Distinguish between Gross Domestic Product (GDP) and Gross National Product (GNP). (4 marks)
 - (b) How is National Income estimated? (6 marks)
 - (c) What problems are encountered in compiling national income data in your country? (10 marks)
- (Total 20 marks)**

Question 5

- (a) Define the following terms:
 - (i) cost-push inflation (2 marks)
 - (ii) imported inflation (2 marks)
 - (b) Outline **six** causes of cost-push inflation. (6 marks)
 - (c) Explain **five** policy measures used to control inflation in Uganda. (10 marks)
- (Total 20 marks)**

Question 6

- (a) Distinguish between labour intensive and capital intensive techniques of production? **(4 marks)**
- (b) Discuss **four** advantages and **four** disadvantages of the labour intensive techniques of production in Uganda. **(16 marks)**
- (Total 20 marks)**

Question 7

- (a) Define the term cash ratio. **(3 marks)**
- (b) Given a cash ratio of 10%, and an initial deposit of Shs 250,000, determine the:
- (i) total credit created. **(3 marks)**
- (ii) credit multiplier. **(2 marks)**
- (c) Explain the factors which limit credit creation in your country. **(12 marks)**
- (Total 20 marks)**