

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 12 DECEMBER 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) Direct production is production:
 - (a) for sale.
 - (b) for the producer's own consumption.
 - (c) of finished goods.
 - (d) on a large scale.
- (ii) Partnership is a business organization with:
 - (a) 1-20 members.
 - (b) 20 members.
 - (c) 10-20 members.
 - (d) 2-20 members.
- (iii) Consumer sovereignty refers to the power enjoyed by the:
 - (a) producer to determine what and how much to produce.
 - (b) government to make production decisions.
 - (c) consumer to determine what and how much to produce.
 - (d) consumer to reject what has been produced.
- (iv) The Law of supply states that the:
 - (a) higher the price, the higher the quantity supplied and vice versa.
 - (b) higher the price, the lower the quantity supplied and vice versa.
 - (c) lower the price, the higher the quantity supplied and vice versa.
 - (d) higher the cost, the higher the quantity supplied and vice versa.
- (v) Commercial rent is the payment for:
 - (a) factors of production.
 - (b) the rise of capital goods.
 - (c) land as a factor of production.
 - (d) the use/hire of durable assets.

Use the following information to answer questions (vi) and (vii).

Given that the price of commodity P increased from Shs 1,200 to Shs 1,800, and quantity of commodity Q demanded increased from 200kg to 300kg.

- (vi) The cross elasticity of demand is:
 - (a) 10
 - (b) 0.1
 - (c) 1
 - (d) 100

- (vii) Commodities P and Q are:
- (a) complements.
 - (b) substitutes.
 - (c) independent goods.
 - (d) inferior goods.
- (viii) Air pollution could be considered as a:
- (a) social cost.
 - (b) implicit cost.
 - (c) explicit cost.
 - (d) private cost.
- (ix) The most profitable business of a commercial bank is usually:
- (a) issuing notes and coins.
 - (b) lending.
 - (c) accepting deposits.
 - (d) discounting bills.
- (x) The optimum firm is the:
- (a) firm with the lowest costs of production.
 - (b) firm with the highest level of sales.
 - (c) best or most efficient type of firm.
 - (d) best known firm in the market.
- (xi) Which of the following are forms of underemployment?
- (i) Labour doing last resort work.
 - (ii) Full time engagement in productive work.
 - (iii) Labour working less hours than normal during a given period.
- (a) (i).
 - (b) (ii) and (iii).
 - (c) (i) and (ii).
 - (d) (i) and (iii).
- (xii) Reserve prices are used:
- (a) at an auction.
 - (b) in a capital market.
 - (c) in a commercial bank.
 - (d) in a foreign exchange bureau.

- (xiii) Which of the following pairs is a withdrawal from the circular flow of income?
- (a) Taxation and investments.
 - (b) Savings and imports.
 - (c) Government expenditure and exports.
 - (d) Imports and exports.
- (xiv) Given that; in country X, 40 babies were born and 20 people died in the same year. It is also assumed that the country has a total population of 1,000 people.

What is the population growth rate?

- (a) 1.2% per annum.
 - (b) 20% per annum.
 - (c) 2% per annum.
 - (d) -2% per annum.
- (xv) A real wage is equal to:
- (a) $\frac{\text{nominal wage}}{\text{costs of production}}$
 - (b) $\frac{\text{nominal wage}}{\text{fixed costs}}$
 - (c) $\frac{\text{real wage}}{\text{nominal wage}}$
 - (d) $\frac{\text{nominal wage}}{\text{price level}}$
- (xvi) Fisher's Quantity theory of money is summarized as:
- (a) $P/MV = PT$
 - (b) $PM = TV$
 - (c) $P/T = M/V$
 - (d) $PT = MV$
- (xvii) Mild inflation is also referred to as:
- (a) galloping inflation.
 - (b) runaway inflation.
 - (c) creeping inflation.
 - (d) suppressed inflation

- (xviii) 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.
- (xix) Musoke chooses to buy a radio instead of a bicycle. The opportunity cost of the radio is the:
- (a) bicycle he had to do without.
 - (b) satisfaction he obtains from the purchase of the radio.
 - (c) scarcity value of the radio in money terms.
 - (d) price of the radio.
- (xx) External economies arise essentially from:
- (a) a firm's individual policies.
 - (b) localization of industry.
 - (c) government economic policy.
 - (d) mobility of factors of production.

SECTION B

Question 2

- (a) Define the following terms:
- (i) Planned economy (2 marks)
 - (ii) Unplanned economy (2 marks)
- (b) Outline **three** features of an unplanned economy. (6 marks)
- (c) Explain any **five** disadvantages of a planned economy? (10 marks)
- (Total 20 marks)**

Question 3

- (a) Distinguish between horizontal merging and vertical merging of firms, giving an example of each. (6 marks)
- (b) Give **four** reasons why firms merge. (4 marks)
- (c) Explain any **five** factors that limit the merging of firms. (10 marks)
- (Total 20 marks)**

Question 4

- (a) List down **four** agents of production.
(4 marks)
 - (b) What is the contribution of the different factors of production to national income?
(4 marks)
 - (c) Explain **six** factors that determine the demand for factors of production.
(12 marks)
- (Total 20 marks)

Question 5

- (a) Define the term underdevelopment.
(4 marks)
 - (b) Outline **four** internal factors and **four** external factors responsible for your country's underdevelopment.
(8 marks)
 - (c) What **four** measures can be taken to accelerate the rate of development in your country?
(8 marks)
- (Total 20 marks)

Question 6

- (a) Differentiate between a nominal wage and a real wage.
(4 marks)
 - (b) Outline **four** ways in which wages are determined in your country.
(4 marks)
 - (c) Explain **six** causes of wage differences in your country.
(12 marks)
- (Total 20 marks)

Question 7

- (a) What is meant by "public revenue"?
(2 marks)
 - (b) Outline any **six** sources of public revenue.
(6 marks)
 - (c) Explain any six reasons why government levies taxes in your country.
(12 marks)
- (Total 20 marks)