

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### ECONOMICS – PAPER 7

TUESDAY, 11 DECEMBER 2007

#### 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.

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**SECTION A****Question 1**

- (i) The consumer allocates limited resources among a large number of competing wants in order to achieve:
- (a) optimum opportunity cost.
  - (b) maximum satisfaction.
  - (c) freedom of exchange.
  - (d) maximum profits.
- (ii) A giffen good is a good for which quantity demanded:
- (a) rises as price increases.
  - (b) rises as income increases.
  - (c) falls as income decreases.
  - (d) remains constant as price increases.
- (iii) The term factor prices refers to:
- (a) expenses incurred by a firm.
  - (b) revenue obtained by a firm.
  - (c) what consumers pay for goods and services.
  - (d) rewards for factors of production.
- (iv) Market demand is:
- (a) demand at prevailing average prices.
  - (b) ability to pay the market price.
  - (c) the sum of all individual demands.
  - (d) demand in a perfectly free market.

**Study the table below and use the information to answer questions (v) and (vi):**

Output	Total cost (Shs)
0	120
1	180
2	260

- (v) What are the fixed costs of this firm?
- (a) Shs 120.
  - (b) Shs 60.
  - (c) Shs 560.
  - (d) Shs 140.

- (vi) What is the value of the marginal cost at output level 2?
- (a) Shs 60.
  - (b) Shs 80.
  - (c) Shs 140.
  - (d) Shs 560.
- (vii) Kampala Taxi Operators and Drivers' Association charges higher prices to rush-hour travellers than to off-peak travellers. This is because:
- (a) demand for rush-hour travel is price elastic.
  - (b) supply for off-peak travel is limited.
  - (c) demand for rush-hour travel is price inelastic.
  - (d) demand for rush-hour travel is more income inelastic.
- (viii) Multi-national companies are those that:
- (a) have shareholders living in more than one country.
  - (b) undertake direct foreign investment.
  - (c) invest in overseas governments' securities.
  - (d) sell soft drinks worldwide.
- (ix) Unemployment caused by the general low level of aggregate demand is called:
- (a) structural.
  - (b) frictional.
  - (c) residual.
  - (d) cyclical.
- (x) An industry is likely to be located near the market where the raw material:
- (a) loses weight in the manufacturing process.
  - (b) has a low value per ton.
  - (c) is widely available on many sites.
  - (d) is perishable.
- (xi) Which of the following policies can be used to close a deflationary gap?
- (i) Increasing taxes
  - (ii) Reducing taxes and increasing government expenditure
  - (iii) Expansionary monetary policy
- (a) (ii) and (iii).
  - (b) (i) and (ii).
  - (c) (i).
  - (d) (i), (ii) and (iii).

- (xii) Which of the following sources of finance is **NOT** likely to be available to a small firm?
- (a) Borrowing from a bank.
  - (b) Selling shares to the general public.
  - (c) Re-investment of profits.
  - (d) Fundraising from friends.
- (xiii) Which of the following may **NOT** cause a balance of payment surplus?
- (a) An increase in the prices of exports.
  - (b) A fall in prices of imports.
  - (c) A fall in prices of exports.
  - (d) An improvement in quality of exports.
- (xiv) Which of the following is the best way of controlling demand-pull inflation?
- (a) Expansionary monetary policy.
  - (b) Expansionary fiscal policy.
  - (c) Increase in the level of exports.
  - (d) Restrictive monetary policy.
- (xv) Tax incidence refers to:
- (a) the object which is taxed.
  - (b) the burden of tax collection by the government.
  - (c) the penalty for evading taxes.
  - (d) where the final tax burden rests.
- (xvi) An example of vertical combination is the merger of:
- (a) a spinning firm and a weaving firm.
  - (b) two hair saloons.
  - (c) two very large wholesale textile distributors.
  - (d) three secretarial bureaus in one town.
- (xvii) Most of Uganda's debts are "dead weight" in the sense that they:
- (a) are bound to increase from year to year.
  - (b) are very heavy debts.
  - (c) are not covered by any real asset.
  - (d) have accumulated from the past debts.
- (xviii) Which of the following is **NOT** an invisible item of trade?
- (a) Banking services.
  - (b) Importation of cars.
  - (c) Shipping services.
  - (d) Services of a foreign consultant.

- (xix) An industry consists of firms which may be defined as:
- (a) units enjoying economies of large scale production.
  - (b) units enjoying advantages of division of labour.
  - (c) units based on the concept of limited liability.
  - (d) independently administered business units.
- (xx) A quantitative and qualitative increase in the real output of a country refers to:
- (a) development.
  - (b) modernization.
  - (c) economic growth.
  - (d) modernization.

## SECTION B

### Question 2

- (a) Distinguish between price elasticity of demand and income elasticity of demand.  
(4 marks)
- (b) Study the table below showing income and quantity demanded of commodity P, and answer the questions that follow:

Income (Shs)	Quantity demanded (Kgs)
20,000	100
30,000	40

- (i) Calculate the income elasticity of demand for commodity P.  
(3 marks)
- (ii) What type of commodity is P?  
(1 mark)
- (c) (i) Give **six** factors that influence the price elasticity of demand for a commodity.  
(6 marks)
- (ii) Describe **three** uses of price elasticity of demand in your country.  
(6 marks)
- (Total 20 marks)**

### Question 3

- (a) Differentiate between normal profits and supernormal profits.  
(4 marks)
- (b) State **four** factors that determine the level of profits in an economy.  
(4 marks)
- (c) Discuss the role of profits in a free-enterprise economy.  
(12 marks)
- (Total 20 marks)**

#### Question 4

- (a) Mention **four** factors that determine the strength of a trade union.  
(4 marks)
  - (b) Outline **six** reasons why trade unions demand for increased wages.  
(6 marks)
  - (c) What problems are faced by trade unions in your country?  
(10 marks)
- (Total 20 marks)**

#### Question 5

- (a) Differentiate between demand-pull inflation and cost-push inflation.  
(4 marks)
  - (b) Outline **four** causes of demand-pull inflation.  
(4 marks)
  - (c) Suggest ways of controlling demand-pull inflation in your country.  
(12 marks)
- (Total 20 marks)**

#### Question 6

- (a) Define the following:
    - (i) Sectoral plan. (2 marks)
    - (ii) Project plan. (2 marks)
  - (b) State **four** reasons for development planning in your country.  
(4 marks)
  - (c) Describe **six** factors that limit effective implementation of plans in developing countries.  
(12 marks)
- (Total 20 marks)**

#### Question 7

- (a) Distinguish between privatization and nationalization.  
(4 marks)
  - (b) Outline **six** reasons for privatization of public enterprises in your country.  
(6 marks)
  - (c) Discuss **five** problems that have been faced in the privatization of public enterprises in your country.  
(10 marks)
- (Total 20 marks)**