

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 19 JUNE 2007

INSTRUCTIONS TO CANDIDATES:

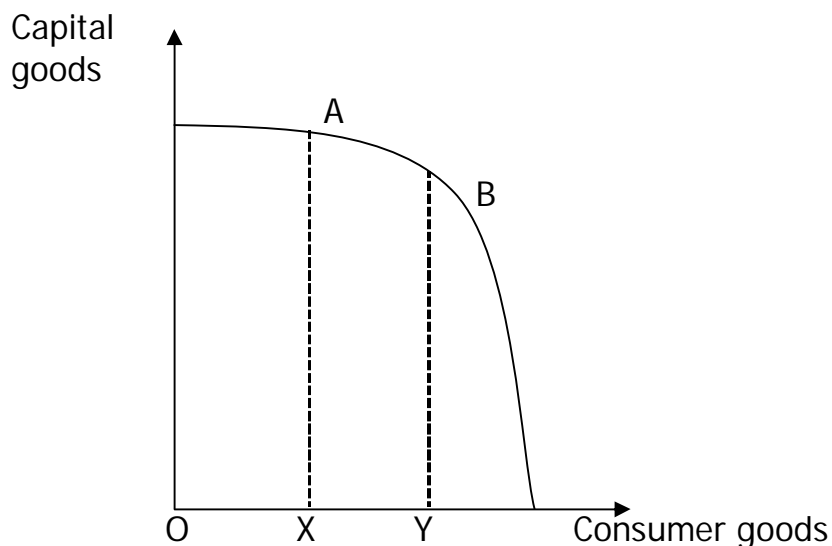
1. Time allowed: **3 hours**
2. Attempt **all** questions in Section A and any **four** questions from Section B.
3. Section **A** has twenty compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has **six** questions and only **four** are to be attempted. Each question carries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

SECTION A**Question 1**

- (i) The economist assumes that if a person must make a choice between two items / activities, he will always choose the alternative that will:
- (a) make him a more efficient worker.
 - (b) improve his future prospects.
 - (c) yield him the greater satisfaction.
 - (d) satisfy his wants without delay.
- (ii) The following are characteristics of wealth **EXCEPT** it:
- (a) is scarce.
 - (b) reduces disposable income.
 - (c) can be transferred from one person to another.
 - (d) possesses utility.
- (iii) The return to capital as a factor of production is:
- (a) profit.
 - (b) income.
 - (c) wage.
 - (d) interest.
- (iv) The optimum firm is the:
- (a) best or most efficient type of firm.
 - (b) firm with highest level of sales.
 - (c) best known firm in the market.
 - (d) firm with the lowest costs of production.
- (v) A normal demand curve shows the:
- (a) inverse relationship between quantity demanded and quantity supplied.
 - (b) relationship between price and income.
 - (c) inverse relationship between price and quantity demanded.
 - (d) inverse relationship between price and quantity supplied.
- (vi) Gross National Product minus Gross Domestic Product equals:
- (a) Depreciation.
 - (b) Net income from abroad.
 - (c) Net investment.
 - (d) Net National Product.

- (vii) will cause the demand curve for a commodity to shift to the right.
- (a) An increase in the costs of producing the commodity
 - (b) An increase in the price of a close substitute
 - (c) A fall in the price of the commodity
 - (d) An increase in the price of a complementary good.
- (viii) Under perfect competition, a firm is in equilibrium when, average revenue (AR) is:
- (a) equal to marginal revenue , and both are positive.
 - (b) equal to marginal revenue, and both are zero.
 - (c) less than marginal revenue, and both are positive.
 - (d) greater than marginal revenue, which is positive.
- (ix) Demand for a factor of production is a “derived demand” because it:
- (a) emerges from the demand for the final product.
 - (b) is derived from the entrepreneur’s need for profit.
 - (c) stems from government policy relating to labour.
 - (d) is derived from long-period expectations.
- (x) Under the bargaining theory of wages, the level of wages directly depends on the:
- (a) bargaining skills of the individual workers.
 - (b) bargaining strength of the organized workers.
 - (c) bargaining strength of the skilled workers.
 - (d) level of education of the highly educated workers.
- (xi) A deflationary gap in an economy can best be closed by:
- (a) an increase in the rate of income tax.
 - (b) a reduction in the amount of government spending.
 - (c) a reduction in the rate of sales tax.
 - (d) a restriction on bank lending to individuals and firms.
- (xii) At the present time, the power of issuing bank notes in Uganda is confined to:
- (a) Bank of Uganda and commercial banks.
 - (b) Commercial banks.
 - (c) Micro-finance institutions and commercial banks.
 - (d) Bank of Uganda.

- (xiii) Assuming other factors remain constant, an increase in liquidity preference will lead to:
- a fall in interest rates.
 - a fall in the supply of money.
 - more loanable funds coming on to the market.
 - increased holdings of money by the public.
- (xiv) Study the production possibility curve of a community below:



The points A and B represent:

- the community's demand for capital goods (i.e AX) and consumer goods (i.e OY).
 - the maximum possible output of capital goods (AX) and consumer goods (OY).
 - possible alternative combinations of capital goods and consumer goods which the community can produce.
 - a full employment output (A) and a less than full employment output (B).
- (xv) If the demand for a commodity is perfectly inelastic, then, other things being equal, the incidence of a tax on that commodity will be entirely on the:
- seller.
 - buyer.
 - government.
 - local authority.

- (xvi) If Bank of Uganda decides to pursue a restrictive monetary policy, it will:
- (a) sell treasury bills.
 - (b) buy treasury bills.
 - (c) accept collateral security.
 - (d) adjust the interest rates.
- (xvii) The price floor is set by the government to:
- (a) protect the consumers.
 - (b) regulate monopolists.
 - (c) promote efficiency.
 - (d) protect the producers.
- (xviii) Given that the exchange rate is US \$ 1 = Shs 2,000; the new exchange rate after devaluation of the shilling by 10% is:
- (a) Shs 2,100.
 - (b) Shs 1,800.
 - (c) Shs 2,200.
 - (d) Shs 1,900.
- (xix) Unemployment caused by the general low level of aggregate demand is called:
- (a) structural.
 - (b) cyclical.
 - (c) residual.
 - (d) frictional.
- (xx) A rise in the is a cause of demand – pull inflation.
- (a) demand for consumer goods
 - (b) demand for money
 - (c) demand for capital goods
 - (d) prices of goods and services

SECTION B**Question 2**

- (a) Outline **six** causes of income inequalities in your country. (6 marks)
- (b) What are the demerits of income inequalities? (6 marks)
- (c) Describe **four** policy measures for reducing income inequalities in your country. (8 marks)
- (Total 20 marks)**

Question 3

- (a) Outline **four** salient features of a firm under:
 (i) monopolistic competition. (4 marks)
 (ii) perfect competition. (4 marks)
- (b) Mention **four** advantages of a market under perfect competition. (4 marks)
- (c) Explain how a perfectly competitive market determines output, price and profits in the short run. (8 marks)
- (Total 20 marks)**

Question 4

- (a) Distinguish between terms of trade and balance of trade. (4 marks)
- (b) Explain **four** causes of unfavourable terms of trade for developing countries. (8 marks)
- (c) Give **four** merits and **four** demerits of protectionist policy in your country. (8 marks)
- (Total 20 marks)**

Question 5

- (a) Define the following terms:
- (i) industrial inertia (2 marks)
 - (ii) localization of industries (2 marks)
- (b) Outline **four** features of the industrial sector in your country. (4 marks)
- (c) What are the problems faced by the industrial sector in your country. (12 marks)
- (Total 20 marks)**

Question 6

- (a) Distinguish between seasonal unemployment and technological unemployment. (4 marks)
- (b) Suggest ways of solving seasonal unemployment in an economy. (6 marks)
- (c) Explain **five** policies being undertaken to solve the unemployment problem in your country. (10 marks)
- (Total 20 marks)**

Question 7

- (a) Differentiate between taxable income and taxable capacity. (4 marks)
- (b) Give **six** principles of a good tax system. (6 marks)
- (c) Explain **five** reasons for levying taxes in your country. (10 marks)
- (Total 20 marks)**