

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### ECONOMICS – PAPER 7

THURSDAY, 11 DECEMBER 2008

#### 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) A fishmonger must throw away fish that remains at the end of each day. One hour before he closes for the day, he has 50 kg of unsold fish. To maximize his profit, what price should he charge for the fish?
- (a) The price which gives him the highest profit margin per kilogramme of fish.
  - (b) A price equal to his marginal revenue.
  - (c) The price that will maximize his total revenue.
  - (d) The wholesale price at which he bought the fish.
- (ii) Which of the following is an invisible export of Uganda?
- (a) Expenditure by Ugandan soldiers on duty in Somalia.
  - (b) Payment of taxes by a Ugandan firm in Kenya to the Kenya Treasury.
  - (c) Repayment of an IMF loan by the Uganda Treasury.
  - (d) Expenditure by Japanese visitors in a Kampala restaurant.
- (iii) A student works for a book-shop for several days during the holidays. She is offered the alternative of being paid Shs 500,000 in cash or choosing Shs 800,000 worth of books from the shelves. What is the real cost to the student of choosing the books?
- (a) Shs 500,000.
  - (b) Shs 300,000.
  - (c) Shs 800,000.
  - (d) The alternative use to which her time could have been put.
- (iv) Which of the following assets of commercial banks is the most profitable?
- (a) Loans and advances.
  - (b) Eligible commercial bills.
  - (c) Balances at the central bank.
  - (d) Treasury bills.
- (v) Real wages are defined as:
- (a) the marginal physical product of labour.
  - (b) the opportunity cost of labour.
  - (c) the purchasing power of money wages.
  - (d) wages net of taxes.

- (vi) Income for which no goods or services have been provided in exchange is called:
- (a) quasi rent.
  - (b) transfer earnings.
  - (c) transfer payments.
  - (d) consumer surplus.
- (vii) A negative output gap is another term for:
- (a) a deflationary gap.
  - (b) an unbalanced budget.
  - (c) a budgetary deficit.
  - (d) an inflationary gap.
- (viii) A patent, which had conferred a temporary monopoly position on a firm lapses, what is likely to happen to the demand curve for the firm's product?
- (a) It will shift to the left and become less elastic.
  - (b) It will shift to the left and become more elastic.
  - (c) It will shift to the left with unchanged elasticity.
  - (d) It will shift to the right and become more elastic.
- (ix) The main economic problem facing all societies is how to:
- (a) allocate scarce resources.
  - (b) reduce unemployment.
  - (c) reduce poverty.
  - (d) control inflation.
- (x) What is most likely to make the demand for a product inelastic?
- (a) If the product is a luxury one.
  - (b) Where there is a large number of substitutes for the product.
  - (c) The proportion of income spent on the product is very high.
  - (d) The product is habit-forming.
- (xi) A government may introduce tariffs and quotas to:
- (a) increase the level of international competition.
  - (b) increase the demand for home-produced goods.
  - (c) reduce price of home produced goods.
  - (d) reduce the price of imports.

- (xii) In some parts of the world, economic unions have been established. These have introduced common currencies. What could be an economic disadvantage of introducing a common currency?
- (a) Absolute and comparative cost advantages would disappear as a basis for trade.
  - (b) Devaluation of a member's currency would no longer be possible.
  - (c) Prices of goods and services would be the same over the whole union.
  - (d) Trade creation would take place.
- (xiii) Which combination of events is most likely to cause inflation?
- |     | <b>Exchange rate</b> | <b>Direct taxes</b> | <b>Money supply</b> |
|-----|----------------------|---------------------|---------------------|
| (a) | Falling              | falling             | falling             |
| (b) | Falling              | falling             | rising              |
| (c) | Rising               | rising              | rising              |
| (d) | Rising               | rising              | falling             |
- (xiv) A 10% devaluation of a country's currency might fail to improve its balance of payments deficit when:
- (a) other countries devalue their currencies by 15%.
  - (b) other countries revalue their currencies by 15%.
  - (c) the demand for the country's imports is elastic.
  - (d) the supply of the country's exports is elastic.
- (xv) What is the essential feature of a pure market economy?
- (a) External costs are taxed.
  - (b) Prices respond to the demand of consumers.
  - (c) Buyers and sellers have perfect knowledge.
  - (d) The government provides public goods.
- (xvi) Indicative planning means:
- (a) plans are prepared and implemented by a central authority.
  - (b) planning is through provision of information from smaller economic planning units upwards.
  - (c) planning takes an indirect approach to influence, direct and regulate production.
  - (d) plans are directed by world bodies.

(xvii) Which of the following is **FALSE** about inflation?

- (a) Hyper inflation is desirable in an economy.
- (b) Mild inflation encourages more investments.
- (c) Inflation in a country can arise due to excessive importation from a country prone to inflation.
- (d) A restrictive monetary policy can be used to control inflation.

(xviii) Which of the following is not a tool of the monetary policy?

- (a) Bank rate policy.
- (b) Open market operations.
- (c) Margin requirement.
- (d) Subsidization of consumers.

(xix) Economic dualism means:

- (a) an economy has an informal sector.
- (b) imports are restricted.
- (c) there are two contradicting social economic systems in an economy one modern and the other traditional.
- (d) the government controls, directs and allocates all economic resources and variables in an economy.

(xx) Optimum population means:

- (a) an ideal population size of a country.
- (b) resources are more than the people.
- (c) the people are more than the resources.
- (d) the population growth rate is very high accompanied by immigrations.

## SECTION B

### Question 2

- (a) Distinguish between a firm and an industry. (4 marks)
  - (b) Explain **four**:
    - (i) advantages of large scale firms. (8 marks)
    - (ii) disadvantages of large scale firms in developing countries. (8 marks)
- (Total 20 marks)**

### Question 3

- (a) Define the term “National Income”. (2 marks)
  - (b) Give **six** reasons for the measurement of National Income in developing countries (6marks)
  - (c) Give **six** problems encountered in the estimation of National Income in developing countries. (12 marks)
- (Total 20 marks)**

### Question 4

- (a) Account for the high population growth rates in developing countries. (10 marks)
  - (b) What measures are being taken to control the population growth rates in Uganda? (10 marks)
- (Total 20 marks)**

### Question 5

- (a) Distinguish between balanced growth and unbalanced growth development strategies. (4 marks)
  - (b) Assess the consequences of unbalanced growth strategies in Least Developed Countries. (16 marks)
- (Total 20 marks)**

**Question 6**

- (a) Define the following:
- (i) Central Bank (2 marks)
  - (ii) Commercial Bank. (2 marks)
  - (iii) Non Banking financial intermediaries. (2 marks)
- (b) Of what importance are foreign owned commercial banks in the development of developing economies?
- (14 marks)
- (Total 20 marks)**

**Question 7**

- (a) State the law of :
- (i) comparative advantage. (2 marks)
  - (ii) absolute advantage. (2 marks)
- (b) Give **eight** limitations of the law of comparative advantage.
- (16 marks)
- (Total 20 marks)**