

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### ECONOMICS – PAPER 7

THURSDAY, 19 JUNE 2008

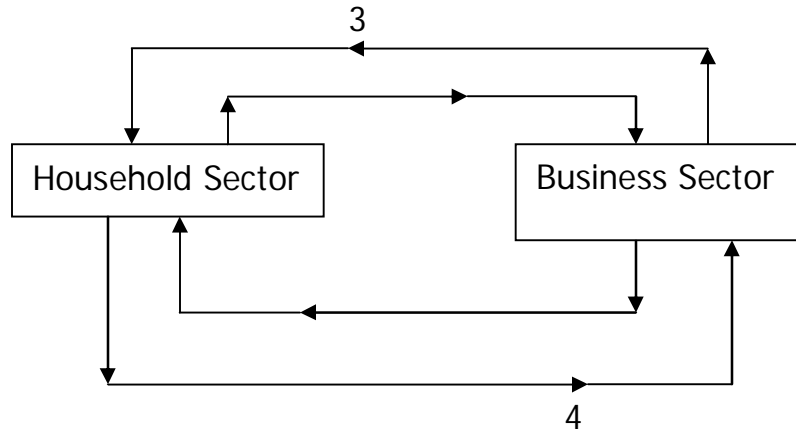
#### INSTRUCTIONS TO CANDIDATES:

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) In an unplanned economy, decisions are made by:
  - (a) business firms.
  - (b) employees.
  - (c) consumers.
  - (d) the state.
- (ii) An inferior good is a good for which the:
  - (a) demand rises as income falls.
  - (b) demand falls as income rises.
  - (c) quantity demanded decreases as price falls.
  - (d) demand rises as income rises.
- (iii) When an economist says that the demand for commodity Q has changed, he / she means that the demand curve for Q:
  - (a) has shifted from left to right.
  - (b) remains constant but falls from left to right.
  - (c) has moved from right to left because of increase in its price.
  - (d) has shifted either to the right or to the left.
- (iv) The law of variable proportions assumes that all:
  - (a) units of a variable factor are homogeneous.
  - (b) factors are variable.
  - (c) fixed factors have fixed technology.
  - (d) factors are fixed.
- (v) The relationship between fish fillet and fish meal fertilizer is one of:
  - (a) joint demand.
  - (b) joint supply.
  - (c) competitive demand.
  - (d) competitive supply.

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



- (vi) Which arrows indicate a real flow of National Income?
- 1 and 2.
  - 1 and 3.
  - 2 and 4.
  - 3 and 2.
- (vii) Which arrows indicate a monetary flow of National Income?
- 1 and 3
  - 2 and 4
  - 3 and 4
  - 1 and 2
- (viii) According to the quantity theory of money, which of the following leads to an increase in prices?
- A fall in the supply of money.
  - A fall in the velocity of circulation of money.
  - An increase in the number of transactions.
  - A fall in the number of transactions.
- (ix) Which of the following is **NOT** one of Adam Smith's canons of taxation?
- Equity.
  - Flexibility.
  - Economy.
  - Convenience.

- (x) Which the following groups would tend to do best during a period of inflation?
- (a) Members of a trade union with strong bargaining power.
  - (b) Creditors.
  - (c) Pensioners.
  - (d) Taxpayers.
- (xi) An example of an indirect tax is:
- (a) advalorem tax.
  - (b) death duty.
  - (c) income tax.
  - (d) VAT.
- (xii) Which of the following is an instrument of fiscal policy?
- (a) Directly raising the level of money supply.
  - (b) Private investment finance to industry.
  - (c) Changes in the level of government expenditure.
  - (d) Import restrictions.
- (xiii) Which of the following is **NOT** a form of protection in international trade?
- (a) Subsidies to producers in declining industries.
  - (b) Import duties.
  - (c) Import quotas.
  - (d) Excise duties.
- (xiv) Unemployment caused by the general decline of aggregate demand, is called:
- (a) structural.
  - (b) frictional.
  - (c) cyclical.
  - (d) residual.
- (xv) A rise in ..... does **NOT** cause cost-push inflation.
- (a) union wage rates
  - (b) the level of indirect taxation
  - (c) demand for consumer goods
  - (d) the rate of interest paid on borrowed funds

- (xvi) Restrictions in international trade are necessary because:
- (a) international trade is not fair trade.
  - (b) infant industries are protected to avoid unfair competition.
  - (c) international trade always brings about balance of payments deficit.
  - (d) international trade brings about new technology.
- (xvii) Which of the following costs are associated with economic growth?
- (i) Extra production causes damages to the environment.
  - (ii) Growth involves change and generation of structural unemployment.
  - (iii) Investment expenditure to generate growth will involve a reduction in consumption levels in the short run.
- (a) (i), (ii) and (iii).
  - (b) (i) and (ii).
  - (c) (iii).
  - (d) (ii) and (iii).
- (xviii) Privatization refers to the:
- (a) selling of formerly government owned enterprises to the private sector.
  - (b) selling of formerly privately owned enterprises to the government.
  - (c) improvement of efficiency.
  - (d) selling of formerly government owned enterprises to foreigners.
- (xix) A sectoral plan covers:
- (a) all sectors of the economy.
  - (b) one or two sectors of the economy.
  - (c) a particular region of the economy.
  - (d) the entire economy.
- (xx) Which of the following would **NOT** lead to a reduction in economic dependence in Uganda?
- (a) Diversifying the economy.
  - (b) Training of local labour force.
  - (c) Developing local technology.
  - (d) Importing more capital goods to increase local production.

## SECTION B

### Question 2

- (a) What is an economic system? (2 marks)
- (b) Give **four** features of a "*laissez-faire*" economy. (4 marks)
- (c) Explain **three** advantages and **four** disadvantages of a "*laissez-faire*" economy.

(14 marks)

(Total 20 marks)

### Question 3

- (a) What is meant by factor mobility? (2 marks)
- (b) Differentiate between occupational and geographical mobility of factors of production, giving an example of each. (6 marks)
- (c) Explain **six** factors which limit occupational mobility of labour in your country.

(12 marks)

(Total 20 marks)

### Question 4

- (a) Define the term National Income. (3 marks)
- (b) Describe the **three** approaches used in measuring national income. (9 marks)
- (c) Suggest any **four** steps that should be taken to increase the level of National Income in Uganda.

(8 marks)

(Total 20 marks)

### Question 5

- (a) List down **six** tools of monetary policy. (6 marks)
- (b) Explain **three** objectives of the monetary policy in an economy. (6 marks)
- (c) Give **four** factors that limit the successful implementation of the monetary policy in your country.

(8 marks)

(Total 20 marks)

**Question 6**

- (a) Define the following terms:
- (i) Overpopulation. (2 marks)
  - (ii) Under-population. (2 marks)
- (b) Explain the concept of optimum population. (6 marks)
- (c) Explain any **five** problems of an increasing population in an economy. (10 marks)
- (Total 20 marks)**

**Question 7**

- (a) What is meant by regional economic integration? (2 marks)
- (b) Differentiate between the following:
- (i) Preferential Trade Area and Free Trade Area. (4 marks)
  - (ii) Customs Union and Common Market. (4 marks)
- (c) Explain **five** merits of regional economic integration. (10 marks)
- (Total 20 marks)**