

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

THURSDAY, 10 DECEMBER 2009

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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) Which of the following is **NOT** a feature of wealth?
- (a) It is scarce.
 - (b) It is in natural abundance.
 - (c) It has an exchange value.
 - (d) It can change ownership.
- (ii) Fundamental problems of economics exclude:
- (a) scarcity.
 - (b) choice
 - (c) opportunity cost
 - (d) technique of production.
- (iii) The production possibility curve shifts to the right when there is:
- (a) technological improvement.
 - (b) decrease in technology.
 - (c) depletion of resources.
 - (d) limited skilled manpower.
- (iv) In a command economy:
- (a) decisions pertaining to economic activities are handled by the central planning authority.
 - (b) all resources are privately owned.
 - (c) there is freedom of choice of enterprise.
 - (d) allocation of resources is by both market forces and by the state.
- (v) Which of the following does **NOT** explain the downward sloping nature of the demand curve?
- (a) Giffen goods.
 - (b) Substitution effect.
 - (c) Real income effect.
 - (d) The law of diminishing marginal utility.
- (vi) Reward for capital as a factor of production is:
- (a) rent.
 - (b) dividend.
 - (c) interest.
 - (d) profit.

- (vii) Which of the following is true about the transfer earnings of a factor of production?
- (a) It is the reward over and above the supply price of a factor.
 - (b) When the supply of a factor is perfectly elastic, the factor does not earn any transfer earnings.
 - (c) When the supply of a factor is perfectly inelastic, it does not earn any transfer earnings.
 - (d) When the supply of a factor is elastic, it earns no transfer earnings.
- (viii) Gross domestic product at factor cost would:
- (a) exclude subsidies but include indirect taxes.
 - (b) exclude both subsidies and indirect taxes.
 - (c) include both subsidies and indirect taxes.
 - (d) include subsidies but exclude indirect taxes.
- (ix) Liquidity trap refers to the:
- (a) lowest interest rate below which the demand for money for transaction motive is zero.
 - (b) lowest interest rate below which the demand for money for speculative motive is zero.
 - (c) highest interest rate above which the demand for money for precautionary motive is zero.
 - (d) highest interest rate above which the demand for money for investment motive is zero.
- (x) The canon of taxation which stipulates that the cost of tax collection and administration should be as minimal as possible is called:
- (a) equity.
 - (b) economy.
 - (c) certainty.
 - (d) convenience.
- (xi) According to the Malthusian population theory:
- (a) food production grows at an arithmetic rate.
 - (b) population growth is arithmetic.
 - (c) population growth should be controlled using natural and artificial checks.
 - (d) food production is geometric.

- (xii) Which of the following is **NOT** an objective of a trade union?
- (a) Improving working conditions of the workers
 - (b) Educating their members with a view of improving their skills.
 - (c) Destruction of property of the firms.
 - (d) Protecting workers against unfair dismissals.
- (xiii) All the following are components of a balance of payments account **EXCEPT**:
- (a) current account.
 - (b) capital account.
 - (c) monetary account.
 - (d) exports account.
- (xiv) Devaluation can be successful when:
- (a) demand for exports is price inelastic.
 - (b) demand for imports is price elastic.
 - (c) supply for exports is price inelastic.
 - (d) supply for imports is price inelastic.
- (xv) A perspective plan is one:
- (a) whose targets are to be achieved after a short period of time say 6 months.
 - (b) which covers the entire economy.
 - (c) which is implemented by a central planning authority.
 - (d) whose objectives are to be achieved after a long period of time say 15 years.
- (xvi) In the take off stage of economic growth:
- (a) there is high level of investment in other economies.
 - (b) there is high level of involvement in affairs of other countries.
 - (c) there is a large supply of highly skilled labour.
 - (d) people produce at the subsistence level.
- (xvii) Which of the following is true about Uganda's economy?
- (a) It is dualistic.
 - (b) Tourism contributes more to GDP than agriculture.
 - (c) Most of the industries are located in rural areas.
 - (d) It is a closed economy.

- (xviii) Divestiture means that government:
- (a) sells majority of its shares in a company to private investors.
 - (b) sells minority of its shares in a firm to private investors.
 - (c) sells 100% its shares to private investors.
 - (d) nationalizes private firms.
- (xix) Stagflation means:
- (a) existence of inflation and unemployment in the economy.
 - (b) existence of high rate of inflation and high rate of unemployment in the economy.
 - (c) inflation and balance of payment problem existing side by side in an economy.
 - (d) an economy that has undergone a currency reform.
- (xx) Which of the following is **NOT** an assumption of price mechanism?
- (a) There is no wastage of resources
 - (b) Consumers buy from the cheapest sources.
 - (c) Factors of production move freely.
 - (d) Consumers have no knowledge about market conditions.

SECTION B

Question 2

- (a) Distinguish between price discrimination and price leadership.
(4 marks)
 - (b) Give **five** circumstances under which price discrimination works.
(10 marks)
 - (c) Illustrate and explain how a monopoly firm determines price, output and profits in the short run.
(6 marks)
- (Total 20 marks)**

Question 3

- (a) What is 'a protectionist policy'?
(2 marks)
 - (b) Explain **four** forms of protectionism used in international trade.
(8 marks)
 - (c) Give **five** reasons for the adoption of protectionist policies in your country.
(10 marks)
- (Total 20 marks)**

Question 4

- (a) What is meant by the term 'monetary policy'?
(2 marks)
- (b) Briefly explain **five** tools employed by the central bank in regulating the amount of money in circulation.
(10 marks)
- (c) Give **four** reasons why the tools employed by the central bank in (b) above may fail to work.
(8 marks)
- (Total 20 marks)**

Question 5

- (a) What is meant by the term 'value added'?
(2 marks)
- (b) Explain **four** reasons why the output method is suitable for Uganda in the estimation of national income.
(8 marks)
- (c) Give **five** reasons why increase in national income does not necessarily imply improvement in the standard of living of the people.
(10 marks)
- (Total 20 marks)**

Question 6

- (a) Distinguish between economic growth and economic development.
(4 marks)
- (b) Give **four** benefits and **four** costs of economic growth.
(16 marks)
- (Total 20 marks)**

Question 7

- (a) Distinguish between demand pull inflation and cost push inflation.
(4 marks)
- (b) Give **four** causes of demand pull inflation.
(8 marks)
- (c) Outline **eight** measures that can be taken to control inflation.
(8 marks)
- (Total 20 marks)**