

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

THURSDAY, 18 JUNE 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) The economic problem common to all societies is how to:
 - (a) achieve full employment.
 - (b) stabilize prices.
 - (c) allocate scarce resources.
 - (d) make choice.
- (ii) A mixed economy is one where;
 - (a) people of all races work in industries.
 - (b) part of the economy is foreign owned.
 - (c) all economic activity is controlled by the government.
 - (d) part of the economy is state owned and controlled.
- (iii) Which of the following best defines derived demand?
 - (a) Demand for factors of production arising from the nature of demand for the final product.
 - (b) Demand for goods that are very close substitutes.
 - (c) Wants backed up by the ability to pay for them.
 - (d) Demand for goods that serve the same purpose.
- (iv) 'Normal price' is the price:
 - (a) charged by the retailer in normal trading periods.
 - (b) generally obtained in long run equilibrium.
 - (c) the average consumer is prepared to pay.
 - (d) in normal conditions in a free market.
- (v) Under perfect competition, a firm will be in equilibrium when its AC is:
 - (a) at a maximum.
 - (b) at a minimum.
 - (c) rising steadily.
 - (d) falling drastically.

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

Stock of machinery = Shs 100 million at beginning of year.

Total output from machinery during the year = Shs 500 billion.

Depreciation cost during the year = 20%.

- (vi) The value of depreciation is:
- (a) Shs 20 billion.
 - (b) Shs 80 billion.
 - (c) Shs 100 billion.
 - (d) Shs 400 billion.
- (vii) The net output during the year is:
- (a) Shs 120 billion.
 - (b) Shs 20 billion.
 - (c) Shs 400 billion.
 - (d) Shs 480 billion.
- (viii) If Bank of Uganda wishes to increase liquidity in commercial banks, it will use the:
- (a) expansionary fiscal policy.
 - (b) expansionary trade policy.
 - (c) expansionary monetary policy.
 - (d) monetary policy.
- (ix) Most industries in Uganda are:
- (a) manufacturing.
 - (b) processing.
 - (c) tertiary.
 - (d) mining.
- (x) A country is said to be under-populated when average product is:
- (a) at a maximum.
 - (b) falling.
 - (c) still rising.
 - (d) constant.
- (xi) Unemployment, caused by the general low level of aggregate demand, is called:
- (a) cyclical.
 - (b) structural.
 - (c) residual.
 - (d) frictional.

- (xii) Which group would tend to do best during a period of inflation?
- (a) People living on past savings.
 - (b) Taxpayers who evade taxes.
 - (c) Pensioners who earn free money.
 - (d) Members of unions with strong bargaining powers.
- (xiii) Which of the following is **NOT** a form of protection in international trade?
- (a) Import duties.
 - (b) Import quotas.
 - (c) Excise duties.
 - (d) Subsidies to industries competing with imports.
- (xiv) Uganda's economy is composed of the following sectors **EXCEPT**:
- (a) construction.
 - (b) large scale manufacturing.
 - (c) agriculture.
 - (d) quarrying.
- (xv) Which of the following equations explains the quantity theory of money?
- (a) $TV = M/P$
 - (b) $MP = VT$
 - (c) $MT = PV$
 - (d) $MV = PT$
- (xvi) A real wage is:
- (a) the purchasing power of money wage.
 - (b) the reward for labour as a factor of production.
 - (c) a fixed reward for labour as a factor of production.
 - (d) the actual amount of money received by a labourer.
- (xvii) Visible trade is the difference between value of:
- (a) exports and imports in a given year.
 - (b) exports and imports of tangible goods in a given year.
 - (c) goods and services in a given year.
 - (d) sales and purchases in a given year.
- (xviii) Stagflation is the existence of both high rates of inflation and:
- (a) underemployment.
 - (b) underdevelopment.
 - (c) unemployment.
 - (d) development.

- (xix) A group of countries (like the East African Community) which allows free trade amongst its members and imposes a common external tariff against non-members is called:
- (a) a free trade area.
 - (b) a common market.
 - (c) a preferential trade area.
 - (d) a customs union.
- (xx) A tax is regressive if:
- (a) it takes a higher proportion of low income earners' income.
 - (b) it takes a higher proportion of high income earners' income.
 - (c) the same amount of the tax is paid at all income levels.
 - (d) the tax is a direct tax rather than an indirect tax.

SECTION B

Question 2

- (a) Define the following:
- (i) Demand schedule. (2 marks)
 - (ii) Demand curve. (2 marks)
- (b) Give **four** reasons that explain the shape of a normal demand curve. (4 marks)
- (c) Explain **six** factors that determine the demand for a commodity. (12 marks)
- (Total 20 marks)**

Question 3

- (a) Differentiate between internal economies of scale and external economies of scale. (4 marks)
- (b) List **six** internal economies of scale. (6 marks)
- (c) Discuss **five** reasons why firms operate on a small scale in spite of the existence of economies of scale. (10 marks)
- (Total 20 marks)**

Question 4

- (a) Distinguish between a deflationary gap and an inflationary gap. (8 marks)
- (b) Explain **three** measures that a country should adopt to close:
- (i) a deflationary gap. (6 marks)
 - (ii) an inflationary gap. (6 marks)
- (Total 20 marks)

Question 5

- (a) Distinguish between assets and liabilities of a commercial bank. Give **one** example of each. (6 marks)
- (b) Outline **four** functions of a commercial bank. (4 marks)
- (c) Discuss **five** problems facing commercial banks in your country. (10 marks)
- (Total 20 marks)

Question 6

- (a) List **six** sources of public revenue in your country. (6 marks)
- (b) Outline any **four** problems of taxation financing in your country. (4 marks)
- (c) Suggest **five** ways of improving tax collection in Uganda. (10 marks)
- (Total 20 marks)

Question 7

- (a) Distinguish between import substitution and export promotion strategies of industrial development. (4 marks)
- (b) Explain **four**:
- (i) advantages,
 - (ii) disadvantages of the import substitution strategy of industrial development.
- (16 marks)
- (Total 20 marks)