

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 15 JUNE 2010

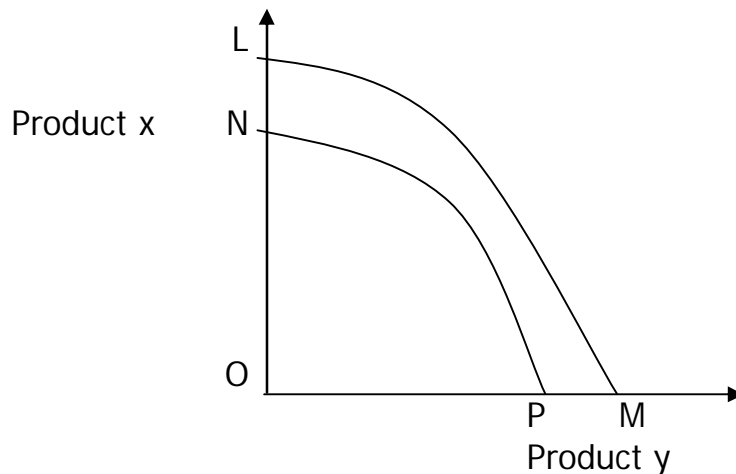
INSTRUCTIONS TO CANDIDATES:

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) Non-rivalry is a characteristic of:
- (a) an inferior good.
 - (b) a merit good.
 - (c) a private good.
 - (d) a public good.
- (ii) Which of the following is a characteristic of a customs union but **NOT** of a free trade area?
- (a) A common external tariff structure.
 - (b) A common tariff between member countries.
 - (c) The abolition of all tariffs between member countries.
 - (d) Fixed exchange rates between member countries.
- (iii) A student decided to stay in her room and do some work rather than go to the cinema. What was the opportunity cost of her decision?
- (a) The enjoyment she would have derived from the cinema.
 - (b) The improvement in the marks she obtained for her assignment.
 - (c) The cost of the extra electricity she used.
 - (d) The money she would have spent at the cinema.
- (iv) The following diagram shows a production possibility curve, LM



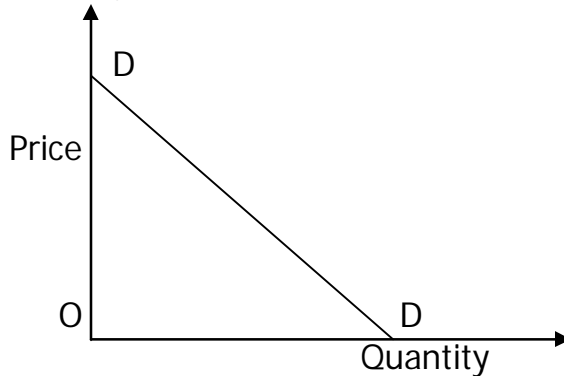
What might cause the curve to shift from LM to NP?

- (a) Technological progress.
- (b) Unemployment of resources.
- (c) The depletion of natural resources.
- (d) A reallocation of resources.

- (v) Which of the following factors would prevent a firm from gaining the maximum benefit from the division of labour?

- (a) A large market.
- (b) A small market.
- (c) High production costs.
- (d) Low productivity.

- (vi) The diagram below shows the demand curve for a commodity:



Which of the following statements is correct?

- (a) Demand is less elastic at higher prices than at lower prices.
 - (b) Consumer expenditure on the commodity always rises whenever the price falls.
 - (c) Price elasticity of demand is different at every price.
 - (d) Price elasticity of demand equals one at every price.
- (vii) Product R is an inferior good with no close substitutes but is a complement to product S. Which combination describes product R?

	Income elasticity of demand	Cross elasticity demand
(a)	Negative	Positive
(b)	Positive	Negative
(c)	Negative	Negative
(d)	Positive	Positive

- (viii) Which of the following statements is correct?

- (a) Education is a public good because the government subsidizes schools.
- (b) Healthcare is a public good when provided free of charge.
- (c) Law and order is a public good because it is provided by the government.
- (d) Street lighting is a public good because no one can be prevented from enjoying the benefits.

- (ix) The index for a country's terms of trade changed from 100 in 2007 to 104 in 2008. What could have caused this change?
- (a) A fall in export prices with import prices unchanged.
 - (b) A fall in invisible earnings.
 - (c) An appreciation of the country's currency.
 - (d) A rise in the value of imports.
- (x) Which of the following is a measure of labour productivity?
- (a) $\frac{\text{Total output}}{\text{Quantity of labour employed}}$
 - (b) $\frac{\text{Total cost}}{\text{Quantity of labour employed}}$
 - (c) $\frac{\text{Total wage cost}}{\text{Quantity of labour employed}}$
 - (d) $\frac{\text{Total profit}}{\text{Quantity of labour employed}}$
- (xi) Which of the following factors will cause cost-push inflation?
- (a) A higher level of consumption.
 - (b) An increase in trade union power.
 - (c) An increase in labour productivity.
 - (d) An appreciation of the exchange rate.
- (xii) Under which of the following circumstances will money lose its value?
- (a) When the economy experiences a period of deflation.
 - (b) When the general level of prices is falling.
 - (c) When the rate of inflation is positive.
 - (d) When the growth of money supply falls below the growth of output.
- (xiii) A Japanese company builds a factory in Uganda to supply both the Ugandan market and the market in the rest of Africa. What is likely to be the long run impact on Uganda's visible trade balance?
- (a) Worsen.
 - (b) Uncertain.
 - (c) Improve.
 - (d) Remain fixed.

- (xiv) The basis for determining the allocation of factors of production in a market economy is the:
- (a) market share of companies.
 - (b) needs of the country.
 - (c) pattern of consumer spending.
 - (d) wealth of entrepreneurs.
- (xv) What is meant by '*ceteris paribus*' in economic analysis?
- (a) A normative approach is being adopted.
 - (b) The effect of a change of one variable is being considered in isolation.
 - (c) One good has to be sacrificed to obtain more of another.
 - (d) One factor of production is fixed.
- (xvi) Doctors should be paid highly because they have to undertake a long period of training. What can be concluded about this statement?
- (a) It is a normative statement because high pay does not always result from lengthy training.
 - (b) It is a normative statement because it expresses an opinion.
 - (c) It is a positive statement because doctors do have to train for a long period.
 - (d) It is a positive statement because greater skill results in higher pay.
- (xvii) An argument against trade protection is that it will increase:
- (a) competition for domestic industries.
 - (b) domestic price levels.
 - (c) the current account deficit.
 - (d) opportunities for domestic infant industries.
- (xviii) The figures below show the consumer price index (CPI) of a country.

Year	CPI
1998	200
1999	204
2000	206
2001	209

Which of the following can be deduced from the data above?

- (a) There was hyperinflation between 1998 – 2001
- (b) The rate of inflation rose in 2000.
- (c) The rate of inflation in 1999 was 4%.
- (d) The country experienced inflation in the three years down to the end of 2001.

- (xix) Which of the following factors determines the purchasing power parity of a currency?
- (a) Relative costs of living.
 - (b) Relative rates of interest.
 - (c) The volume of trade creation.
 - (d) The visible balance of payments.
- (xx) Which of the following is most likely to cause a country's exchange rate to depreciate?
- (a) An increase in the country's demand for imports.
 - (b) An increase in the country's interest rate.
 - (c) An increase in tourists to the country.
 - (d) An increase in foreign demand for the country's exports.

SECTION B

Question 2

- (a) (i) State the law of demand. (2 marks)
 - (ii) Give an illustration of the law of demand. (2 marks)
 - (b) Give **six** reasons for the downward sloping nature of the demand curve. (6 marks)
 - (c) Explain **five** causes of a decrease in quantity demanded of a commodity at a constant price. (10 marks)
- (Total 20 marks)**

Question 3

- (a) What is meant by price discrimination? (2 marks)
 - (b) Give **four** circumstances under which price discrimination may fail. (8 marks)
 - (c) Illustrate and explain the equilibrium position of a monopolist in the long-run. (10 marks)
- (Total 20 marks)**

Question 4

- (a) What is meant by microeconomics?
(2 marks)
 - (b) Explain **six** uses of microeconomics.
(12 marks)
 - (c) Give **three** limitations of microeconomics.
(6 marks)
- (Total 20 marks)**

Question 5

- (a) Explain **five** objectives of a monetary policy in an economy.
(10 marks)
 - (b) Explain **five** factors that might limit the effective implementation of a monetary policy in an economy of a country like Uganda.
(10 marks)
- (Total 20 marks)**

Question 6

- (a) Distinguish between balance of trade and balance of payments.
(4 marks)
 - (b) Explain **five** causes of balance of payments deficit in Uganda.
(10 marks)
 - (c) Suggest **six** measures that should be taken to solve the balance of payments problem in Uganda.
(6 marks)
- (Total 20 marks)**

Question 7

- (a) Explain **five** features of Uganda's industrial sector.
(10 marks)
 - (b) Give **five** major obstacles to industrial development in Uganda.
(10 marks)
- (Total 20 marks)**