

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 07 DECEMBER 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, before you attempt any questions.

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SECTION A**Question 1**

- (i) Opportunity cost is the:
- (a) choice made.
 - (b) limited resources in an economy.
 - (c) alternative foregone.
 - (d) variety of available alternatives.
- (ii) The elasticity coefficient for commodities that have inelastic demand is:
- (a) equal to one.
 - (b) less than one.
 - (c) more than one.
 - (d) infinite.
- (iii) The loss of satisfaction as a result of consuming successive units of a commodity is called:
- (a) unsatisfaction.
 - (b) minimum utility.
 - (c) diminishing marginal utility.
 - (d) disutility.
- (iv) Injections to the circular flow of income include the following **EXCEPT**:
- (a) imports.
 - (b) investments.
 - (c) capital inflow.
 - (d) exports.
- (v) Treasury bills are normally used for:
- (a) short-term lending of about two years.
 - (b) short-term lending of about 365 days.
 - (c) long-term lending of about five years.
 - (d) short-term lending of about 90 days.
- (vi) Liquid money is:
- (a) money in form of bank drafts.
 - (b) money in form of transfers' cheques.
 - (c) money in cash form.
 - (d) money in form of loans.

- (vii) The type of unemployment that arises when the labour market is in equilibrium is referred to as:
- (a) search.
 - (b) natural.
 - (c) residual.
 - (d) unstable.
- (viii) The fourth stage of growth according to Rostow is:
- (a) drive to maturity.
 - (b) Take-off.
 - (c) welfare.
 - (d) pre-conditions to take-off.
- (ix) Uganda's exports are mainly:
- (a) industrial products.
 - (b) primary products.
 - (c) high value added products.
 - (d) forest products.
- (x) A country that receives foreign aid is a:
- (a) beggar.
 - (b) donor.
 - (c) recipient.
 - (d) poor nation.
- (xi) An inflationary gap is where aggregate:
- (a) demand is equal to aggregate supply at full employment.
 - (b) supply is greater than aggregate demand at full employment.
 - (c) demand is less than aggregate supply at full employment.
 - (d) demand is greater than aggregate supply at full employment.
- (xii) The population size of a country may decline due to:
- (a) declining birth rates.
 - (b) declining death rates.
 - (c) declining mortality rates.
 - (d) increasing immigration rates.
- (xiii) Exchange rate is the:
- (a) cost of a currency.
 - (b) price of the US dollar.
 - (c) price of one currency in terms of another.

- (d) demand and supply of foreign currencies.
- (xiv) Most of Uganda's national debt is "dead-weight" in the sense that it is:
 - (a) bound to increase every year.
 - (b) not covered by any real assets.
 - (c) accumulated from past debts.
 - (d) the responsibility of the central bank.
- (xv) Devaluation of a country's currency is successful when:
 - (a) demand for imports is inelastic.
 - (b) supply for exports is inelastic.
 - (c) there is existence of inflation.
 - (d) demand for exports is price elastic.
- (xvi) Technological unemployment occurs as a result of:
 - (a) mechanization.
 - (b) retrenchment.
 - (c) shortage of power.
 - (d) increased skilled labour force.
- (xvii) The percentage or ratio of a commercial bank's total deposits which is kept in form of cash to meet the daily cash requirements of its customers is the:
 - (a) liquidity ratio.
 - (b) liability ratio.
 - (c) liquid assets ratio.
 - (d) cash ratio.
- (xviii) Economic development is:
 - (a) the qualitative increase in output.
 - (b) the quantitative increase in output.
 - (c) both the quantitative and qualitative increase in output.
 - (d) a structural change in the economy.
- (xix) A nation has an aging population when majority of the population are:
 - (a) of working age.
 - (b) above 18 years.
 - (c) still giving birth.
 - (d) above 65 years.
- (xx) Which of the following are direct taxes?
 - (a) Capital gains tax and surtax.
 - (b) Estate duty and excise duty.

- (c) Gift tax and import duty.
- (d) Sales tax and income tax.

SECTION B

Question 2

- (a) Using an illustration, explain how an equilibrium price is determined.

(4 marks)

- (b) Given that the quantity demanded of a commodity is $60 - 4p$ and the quantity supplied of the same commodity is $20 + 4p$ (Where p = price);

calculate the:

- (i) price of the commodity.

(2 marks)

- (ii) equilibrium quantity demanded and supplied at the equilibrium price.

4 marks)

- (c) Suggest **five** ways of stabilising prices in an economy.

(10 marks)

(Total 20 marks)

Question 3

- (a) Distinguish between liquid capital and fixed capital.

(4 marks)

- (b) Outline **four** sources of capital for:

(i) business firms.

(4 marks)

(ii) the government.

(4 marks)

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- (c) Explain **four** causes of low capital accumulation in your country.

(8 marks)

(Total 20 marks)

Question 4

- (a) Differentiate between debt financing and taxation financing.

(4 marks)

- (b) Explain **four** merits and **four** demerits of deficit financing in developing countries.

(16 marks)

(Total 20 marks)

Question 5

- (a) Differentiate between cost push inflation and demand pull inflation.

(4 marks)

- (b) (i) Explain **six** causes of the persistent inflation in your country.

(12 marks)

- (ii) Suggest **four** ways of reducing inflation in your country.

(4 marks)

(Total 20 marks)

Question 6

- (a) Distinguish between piece rate and time rate methods of wage payments.

(4 marks)

- (b) Explain **four** merits and **four** demerits of the piece rate method of wage payment.

(16 marks)

(Total 20 marks)

Question 7

- (a) Distinguish between import substitution and export promotion strategies of industrial development.

(4 marks)

- (b) Explain **four** limitations and **four** advantages of the import substitution strategy of industrial development.

(16 marks)

(Total 20 marks)