

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ATC(U) EXAMINATIONS

### LEVEL TWO

#### ECONOMICS – PAPER 7

WEDNESDAY, 5 JUNE 2013

#### 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. This examination contains Sections **A** and **B**.
3. Section **A** is bound separately from Section **B**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **four** of the **six** questions in Section **B**. Each question carries 20 marks.
6. Write your answer to each question on a fresh page in your answer booklet.
7. Please, read further instructions on the booklet, before attempting any question.

**SECTION B**

*Attempt four of the six questions in this section.*

**Question 2**

- (a) Using illustrations distinguish between maximum price and minimum price. (8 marks)
- (b) Explain **three**:
- (i) merits of maximum price legislation. (6 marks)
  - (ii) demerits of maximum price legislation. (6 marks)
- (Total 20 marks)

**Question 3**

- (a) (i) What is meant by the term 'economies of scale'? (2 marks)
- (ii) Outline **six** internal economies of scale. (6 marks)
- (b) Explain **six** reasons why some firms continue operating on a small scale in spite of the existence of economies of scale. (12 marks)
- (Total 20 marks)

**Question 4**

- (a) Distinguish between gross domestic product and gross national product. (2 marks)
- (b) Given that:
- |                                | Shs million |
|--------------------------------|-------------|
| Gross national product (GNP) = | 275         |
| Net income from abroad         | 15          |
| Depreciation allowance         | 45          |
- Calculate:
- (i) Gross domestic product (GDP). (2 marks)
  - (ii) Net national product (NNP). (2 marks)
- (c) Explain **seven** factors that lead to low levels of national income in your country. (14 marks)
- (Total 20 marks)

**Question 5**

- (a) (i) Outline **four** disadvantages of the barter system of exchange.  
(4 marks)
- (ii) Explain **four** functions of money in an economy.  
(4 marks)
- (b) Explain **six** determinants of money supply in an economy.  
(12 marks)
- (Total 20 marks)

**Question 6**

- (a) (i) Differentiate between direct and indirect taxes, giving **one** example of each.  
(4 marks)
- (ii) Briefly explain **six** principles of a good tax system.  
(6 marks)
- (b) Explain **five** advantages of levying indirect taxes.  
(10 marks)
- (Total 20 marks)

**Question 7**

- (a) Differentiate between the following:
- (i) preferential trade area and free trade area.  
(4 marks)
- (ii) customs union and common market.  
(4 marks)
- (b) Explain **six** merits of regional economic integration.  
(12marks)
- (Total 20 marks)