

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

SATURDAY, 6 JUNE 2015

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) Explain the relationship between the fundamental economic problems. **(3 marks)**

- (b) Given the following information

Country	Production Possibilities	
	Oil (million barrels)	Diamond (million carats)
Egypt	80	4
South Africa	60	5

- (i) Comment on the two countries in relation to the theory of comparative advantage. **(2 marks)**
- (ii) Prove that both countries would mutually benefit after applying the theory of comparative advantage. **(6 marks)**
- (iii) Explain the limitations to the theory of comparative advantage. **(9 marks)**
- (Total 20 marks)**

Question 3

- (a) Differentiate between a giffen good and an inferior good. **(2 marks)**
- (b) Given that country X has a marginal propensity to consume of 80% and country Y has a marginal propensity to save of 0.8:

Required:

- (i) Calculate the investment multiplier for each country. **(4 marks)**
- (ii) State the country that has a higher investment multiplier and by how much. **(2 marks)**
- (c) Examine the determinants of consumption in developing countries. **(6 marks)**
- (d) Account for government wage determination in most developing countries. **(6 marks)**
- (Total 20 marks)**

Question 4

- (a) Illustrate and explain the incidence of a tax on a commodity which has inelastic demand.
(6 marks)
 - (b) Explain the importance of levying taxes.
(6 marks)
 - (c) Explain the steps being taken by the Government of Uganda to redistribute income.
(8 marks)
- (Total 20 marks)**

Question 5

- (a) Explain the salient features of the takeoff stage of economic growth.
(6 marks)
 - (b) Outline the major development goals in your country.
(6 marks)
 - (c) Examine the role of non-bank financial intermediaries in the development of Uganda.
(8 marks)
- (Total 20 marks)**

Question 6

- (a) Distinguish between disguised unemployment and underemployment.
(4 marks)
 - (b) Explain the causes of disguised unemployment.
(6 marks)
 - (c) Explain the measures being taken to achieve industrialisation in Uganda.
(10 marks)
- (Total 20 marks)**

Question 7

- (a) Explain the meaning of 'pecuniary economies of scale'.
(4 marks)
 - (b) Distinguish between quotas and tariffs.
(4 marks)
 - (c) Explain the reasons why firms integrate.
(12 marks)
- (Total 20 marks)**