

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

MONDAY, 2 JUNE 2014

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 **three** of the **four** questions in this section.

Question 2

- (a) Differentiate between import substitution and export promotion strategies of industrialization. (4 marks)
- (b) Examine the merits and demerits of the import substitution strategy of industrialization. (16 marks)

Total 20 marks)

Question 3

- (a) Account for the rise of monopoly in an economy. (10 marks)
- (b) Examine the effects of monopoly in an economy.. (10 marks)

Total 20 marks)

Question 4

- (a) Define the term 'informal sector'. (2 marks)
- (b) Give the features of an informal sector. (6 marks)
- (c) Explain the contributions of the informal sector to Uganda's economy. (12 marks)

Total 20 marks)

Question 5

- (a) Distinguish between recurrent expenditure and capital expenditure in a budget. (4 marks)
- (b) Explain why there is a persistent budgetary deficit in Uganda. (16 marks)

(Total 20 marks)

Question 6

- (a) Give examples of assets and liabilities of a commercial bank. (8 marks)
- (b) Explain ways by which commercial banks are able to achieve profitability. (12 marks)

(Total 20 marks)

Question 7

Study the table below showing output levels of two commodities in two countries given the same units of resources, and answer the questions which follow:

Country	Commodities	
	Sisal	Coffee
X	400	600
Y	300	200

- (a) (i) State the country with absolute advantage in the production of both commodities.
(2 marks)
- (ii) Establish the commodity that each country should specialise in.
(4 marks)
- (b) Explain the limitations of the comparative cost advantage theory in international trade.
(14 marks)
- (Total 20 marks)**