

**INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS OF UGANDA**

**ECONOMIC ENVIRONMENT - PAPER 2
DECEMBER 1997**

INSTRUCTIONS TO CANDIDATES

1. Time allowed: 3 hours
2. Attempt all questions in Section A and any four questions from Section B
3. Section A has twenty compulsory questions each carrying 2 marks
4. Section B has six questions and only four are to be attempted. Each question carries 15 marks
5. Please read further instructions on the answer book

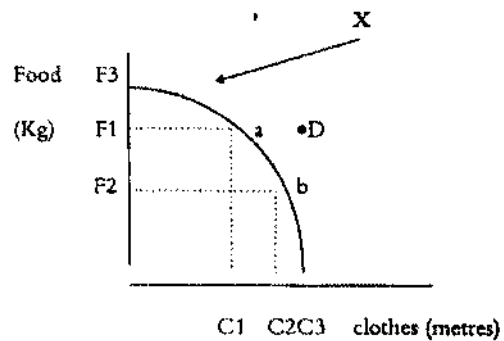
Section A

Write the letter corresponding to the correct answer on your answer sheet.

I. An alternative foregone when choice is made is:

- a) a preference scale
- b) a choice
- c) an opportunity cost
- d) a scarce resource

II.



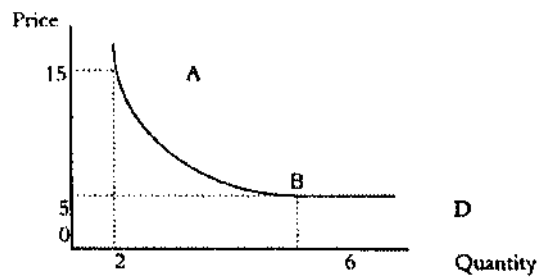
The above curve, labelled X is:

- a) an indifference curve
- b) a production possibility frontier
- c) a lorenz curve
- d) a marginal productivity curve

III. According to the diagram in question two, point D:

- a) cannot be attained using the available resources
- b) suggests efficient utilisation of resources
- c) suggests insufficient utilisation of resources
- d) suggests an increase in resources to commodities produced

IV.



Calculate the arc of elasticity of demand from A to B

- a) 2.5
- b) 0.4
- c) 0.5
- d) 1.0

V. When income elasticity of demand is zero, it means that:

- a) the commodity is an inferior good
- b) the commodity is a necessity
- c) the commodity is a giffen good
- d) the commodity is a normal good

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VI. Which of the following is an externality?

- a) higher turnover from a filling station following the re-routing of a road
- b) the availability to a professional firm of qualified staff trained by other firms
- c) the increased traffic congestion arising from the building of a new supermarket
- d) higher prices for rail travel at peak periods

VII. 'SDR' as used by International Monetary fund refers to:

- a) Special Debt Relief
- b) Structural Debts Rescheduling
- c) Special Drawing Rights
- d) none of the above

VIII. Balance of Payments (BOP) account is composed of the following:

- a) current account and monetary account
- b) capital account and current account
- c) current account, monetary account, capital account, errors and omissions
- d) none of the above

IX. Marginal efficiency of capital refers to:

- a) the percentage of profits expected from an investment of a capital asset
- b) the difference between total capital employed and output
- c) the efficiency of capital employed
- d) the annual yield of a capital asset

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- X. With Uganda's imports prices rising more quickly than the prices of exports:
- a) the balance of payments will improve
 - b) the official reserves will fall
 - c) there will be an improvement in the terms of trade
 - d) there will be a deterioration in terms of trade
- XI. The fraction of total income that is spent is known as the:
- a) investment multiplier
 - b) marginal propensity to consume
 - c) marginal propensity to import
 - d) leakage
- XII. Which of the following is an indirect tax?
- a) corporate tax
 - b) land tax
 - c) sales tax
 - d) income tax
- XIII. The "vent for surplus" theory is about:
- a) giving foreign aid
 - b) employing idle resources to satisfy foreign demand and increase national income
 - c) provision of market for foreign produced goods to encourage international trade
 - d) both import and export policies
- XIV. Economic growth involves the following factors except:
- a) increase in material prosperity
 - b) increase in government revenue
 - c) fall in general price level because of increased production
 - d) improvement of the welfare of the society
- XV. The marginal productivity of labour is zero and one can be removed from work without affecting output. This refers to:
- a) disguised unemployment
 - b) marginal efficiency of labour
 - c) normal unemployment
 - d) mass unemployment

- XVI. Devaluation means:
- a) an upward change in exchange rate
 - b) loss of value of a country's currency due to tear and wear
 - c) a legal reduction of the value of a currency in terms of other currencies
 - d) import purchasing power of exports of a country
- XVII. One of the following is not a form of regional integration:
- a) Preferential Trade Area (PTA)
 - b) Customs Union
 - c) The Lome convention
 - d) Common Market
- XVIII. According to Irving Fisher's quantity theory of money equation, $MV=PT$. V stands for:
- a) volume of money in circulation
 - b) value in the number of transactions
 - c) value of money in circulation
 - d) velocity of money circulation
- IXX. A proportional tax is one:
- a) where the rate of tax is the same irrespective of the size of income or tax base
 - b) where the tax-income ratio reduces as income reduces
 - c) where the rate of tax increases as one's income or tax base increase
 - d) whose impact falls on another person
- XX. Which of the following is a policy used for closing an inflationary gap:
- 1. expansionary monetary policy
 - 2. ~~increasing taxes and reducing government expenditure~~
 - 3. restrictive monetary policy
- a) 1 only
 - b) 1 and 2 only
 - c) 2 and 3 only
 - d) all the above

Section B

Question 2

- (a) Clearly differentiate balance of payments from terms of trade. (6 marks)
- (b) Explain what Uganda can do to improve its terms of trade. (9 marks)

Question 3

- (a) What justifiable reasons would you recommend for government intervention in a free market system? (7 marks)
- (b) Why then have many developing countries liberalised their economies in the recent past and what are likely outcomes of such liberalisation policies? (8 marks)

Question 4

Explain how a commercial bank reconciles the need for security, liquidity and profitability in the distribution of its assets.

(15 marks)

Question 5

- (a) Define the term 'Natural Rate of Unemployment' and show how government can reduce it. (7 marks)
- (b) What are the causes of and solutions to unemployment according to Keynesian unemployment theory? (8 marks)

Question 6

- (a) Monetary and fiscal policies are used to influence the economic performance of a country. Explain this statement. (8 marks)
- (b) What are the limitations on the implementation of these policies on developing countries? (7 marks)

Question 7

- (a) What are the differences between a free trade area, a customs union and a common market. (3 marks)
- (b) Describe four policies which were used by the European community to create a Single Market by 1993? (8 marks)
- (c) Identify two advantages which can be gained by countries in forming a common market. (4 marks)