

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## ECONOMIC ENVIRONMENT – PAPER 2

DECEMBER 2000

### 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.

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## **SECTION A**

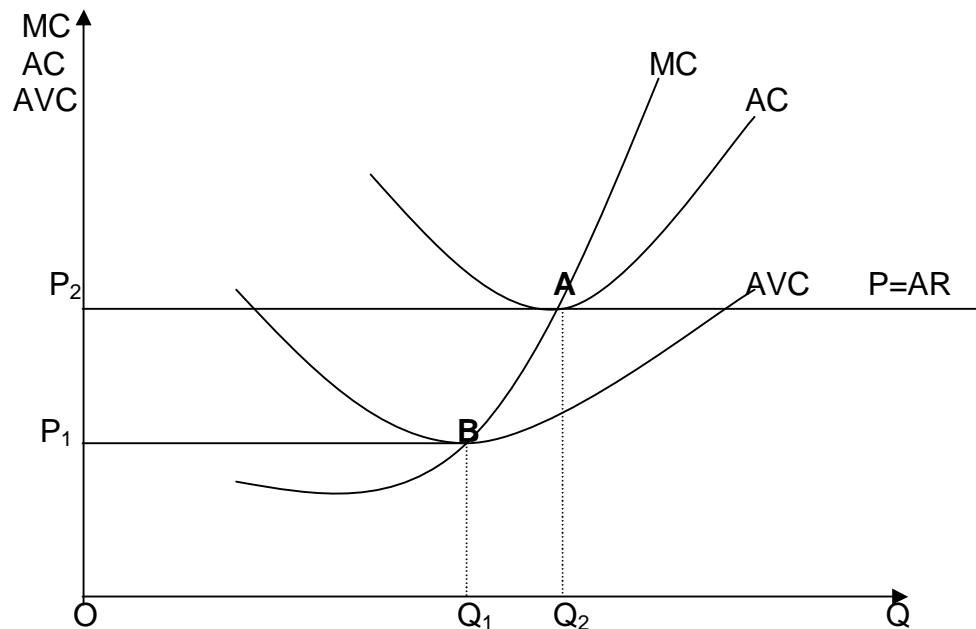
### **Question 1:**

- i) Which of the following factors is not held constant when constructing a demand curve for normal goods?
  - a) Consumers' money income.
  - b) Consumers' tastes and preferences.
  - c) Price of the good itself.
  - d) Prices of other goods.
  
- ii) A merger of a firm making and selling shoes with one that sells leather is called:
  - a) Lateral merger.
  - b) Conglomerate merger.
  - c) Forward vertical merger.
  - d) Backward vertical merger.
  
- iii) A firm produces 5 units of output at a total cost of Shs.2,100/=. The average variable cost is 300/= per unit. The fixed costs of the firm are:
  - a) Shs. 120.
  - b) Shs. 600.
  - c) Shs. 250.
  - d) Shs. 420
  
- iv) The following are concepts of National Income except:
  - a) Net property income from abroad.
  - b) Gross domestic product.
  - c) Gross national product.
  - d) Net national product.
  
- v) Which of the following assets of a commercial bank is the most profitable?
  - a) Balances at the central bank.
  - b) Treasury bills.
  - c) Loans and advances.
  - d) Eligible commercial bills.

- vi) Which of the following may not close a deflationary gap?
- a) A reduction in taxes.
  - b) An increase in government expenditure.
  - c) A reduction in exports.
  - d) An increase in importation of goods.
- vii) The introduction of equal pay legislation increases the wages of female workers. What would be the most likely effect of this increase?
- a) An increase in the supply of female workers.
  - b) Substitution of female workers for male workers.
  - c) A reduction in the rate of female employment.
  - d) A reduction in the wages of male workers.
- viii) A fall in price of commodity Z by 10% increases demand of commodity Z by 30%. The price elasticity of demand for commodity Z is said to be:-
- a) Inelastic.
  - b) Elastic.
  - c) Unitary Elastic.
  - d) Perfectly Inelastic.
- ix) The following may cause cyclical unemployment except:-
- a) A reduction in government expenditure.
  - b) A decline in investment.
  - c) An increase in importation.
  - d) An increase in exports.
- x) For effective operation of price discrimination:
- a) The producer should not be a monopolist.
  - b) The good should have close substitutes.
  - c) The government should interfere.
  - d) There should be market imperfections.

- xi) Which of the following reasons does not justify the existence of parastatal enterprises?
- To provide goods and services not being provided by the private sector.
  - To enable the government to control production and distribution of certain basic commodities/services.
  - To enable the government to gain experience in production activities.
  - In order to provide goods and services at relatively fair prices.
- xii) When the visible imports exceed the visible exports, a country is said to experience:
- A favourable balance of trade.
  - An unfavourable balance of trade.
  - A favourable balance of payments.
  - An unfavourable balance of payments.

**The graph below shows the unit cost curves of a firm. Use the information on the graph to answer the questions (xiii) and (xiv).**



- xiii) The points A and B represent the firm's:
- a) Shut down and breakeven points.
  - b) Profit maximisation points.
  - c) Breakeven and shut down points.
  - d) The marginal output points.
- xiv) Which level of output represents the optimum size of the firm?
- a)  $OQ_1$
  - b)  $OQ_2$
  - c)  $OP_1$
  - d)  $OP_2$
- xv) "When more and more units of a variable factor are added to fixed quantities of other factors, the marginal returns to the variable factor eventually diminish". This is a statement of the law of:-
- a) Diminishing marginal utility.
  - b) Increasing returns.
  - c) Diminishing marginal substitution.
  - d) Variable proportions.

Given that an increase in price of commodity A from Shs.1,000 to Shs.1,500 leads to a decrease in quantity demanded of commodity B from 50 units to 40 units per week. Use the above information to answer questions (xvi) and (xvii).

- xvi) Calculate the elasticity of demand for commodity B.
- a) -0.4
  - b) 2.5
  - c) -2.5
  - d) +0.4
- (xvii) Give possible examples of commodities A and B.
- a) Coffee and tea.
  - b) Meat and hides.
  - c) Lamp and paraffin.
  - d) Salt and sugar.

- xviii) When the government wishes to discourage imports, it can:-
- a) Impose higher taxes on home made products.
  - b) Encourage free trade.
  - c) Remove quotas.
  - d) Impose tariffs on foreign goods.
- xix) One of the following is not a necessary condition for devaluation to succeed:-
- a) Demand for imports should be price inelastic.
  - b) Demand for exports should be price elastic.
  - c) Supply of exports should be price elastic.
  - d) Demand for imports should be price elastic.
- xx) Below are five statements about the functions of a Central Bank:-
- i) Acts as banker to the government and the commercial banks.
  - ii) Provides current accounts to members of the public.
  - iii) Provides overdrafts to private companies.
  - iv) Controls the supply of money in the economy.
  - v) Acts as a lender of last resort.

Which of the following combinations of the statements correctly indicates the functions of a Central Bank?

- a) (ii), (iv) and (v).
- b) (i), (iv) and (v).
- c) (i), (iii) and (iv).
- d) (i), (ii) and (iii)

## SECTION B

### Question 2:

- a) Distinguish between unemployment and underemployment. **4 marks**
  - b) Explain four causes of rural-urban migration in Uganda. **4 marks**
  - c) i) State three causes of structural unemployment in your country. **3 marks**  
ii) How can structural unemployment be avoided in an economy? **4 marks**
- Total 15 marks**

### Question 3:

Many developing countries are putting much emphasis on regional economic integration as a way of improving their position in international trade.

- a) What is meant by regional economic integration? **2 marks**
  - b) Distinguish between free trade area and customs union. **4 marks**
  - c) Identify five merits and four demerits associated with regional economic integration. **9 marks**
- Total 15 marks**

### Question 4:

- a) Define the following:-
    - i) Balance of trade. **2 marks**
    - ii) Balance of payment. **2 marks**
    - iii) Terms of trade. **2 marks**
  - b) Suggest four measures that a country can adopt to correct a Balance of Payment deficit. **4 marks**
  - c) Explain five conditions necessary for devaluation to improve the balance of payment position of a country. **5 marks**
- Total 15 marks**

**Question 5:**

- a) Give four reasons why the demand curve is downward sloping. **4 marks**
  - b) Explain three circumstances when the position of the demand curve may be different from that stated in (a) above. **6 marks**
  - c) Present five factors that may affect the demand of a given commodity. **5 marks**
- Total 15 marks**

**Question 6:**

- a) Give four ways used to classify world markets. **4 marks**
  - b) Explain four features of a free market economy. **4 marks**
  - c) i) Why is a producer under perfect competition a price taker rather than a price maker? **3 marks**
  - ii) Explain four positive implications of the existence of monopoly in Uganda. **4 marks**
- Total 15 marks**

**Question 7:**

- a) Distinguish between:
    - i) Taxable capacity and tax base. **4 marks**
    - ii) Balanced budget and deficit budget. **4 marks**
  - b) Explain three sources of public revenue. **3 marks**
  - c) What is the role of public finance in your country? **4 marks**
- Total 15 marks**