

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ECONOMIC ENVIRONMENT – PAPER 2

JUNE 2000

INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**
2. Attempt all questions in Section A and any four (4) questions in Section B.
3. Section A has twenty (20) compulsory questions each carrying **two (2) marks**.
4. Section B has seven (7) questions and **only four (4)** are to be attempted. Each question carries **15 marks**.
5. Please read further instruction on the answer book.

SECTION A

Question 1:

- i) If Kakira Sugar Works merged with British American Tobacco (U), this should be described as:
 - a) Cartel.
 - b) Lateral merging.
 - c) Vertical merging.
 - d) Conglomerate.
- ii) When Amina's income increased from Shs.10,000 to Shs.12,000, her demand for commodity X rose from 50 units to 70 units. The income elasticity of demand is:
 - a) -2
 - b) +2
 - c) 0.01
 - d) 0.5
- iii) Commodity X in (ii) above is:
 - a) A necessity.
 - b) Inferior good.
 - c) Normal good.
 - d) Income inelastic item.
- iv) If consumer demand for a commodity is less than unity, the impact of tax levied on such a product is likely to be born:
 - a) Entirely by consumers.
 - b) Entirely by suppliers.
 - c) Largely by consumers.
 - d) Largely by suppliers.
- v) Which of the following is not a direct tax?
 - a) Corporate Tax.
 - b) Capital Gains Tax.
 - c) Wealth Tax.
 - d) Value Added Tax .

Economic Environment - Paper 2

The following information is derived from national income figures of country X. use it to answer questions (vi) and (vii) that follow:

GDP at Market Price	11,000,000/=
Indirect taxes	100,000/=
Net Domestic Product at factor cost	9,000,000/=
Net factor incomes from abroad	4,200,000/=

The Net National income for country X at factor cost is:

- a) 10,900,000.
- b) 15,100,000.
- c) 1,900,000.
- d) 13,200,000.

Gross Domestic Product at factor cost is:

- a) 9,000,000.
- b) 10,900,000.
- c) 9,100,000.
- d) 4, 100,000.

One of the following may not occur under a floating exchange rate regime.

Currency:

- a) Devaluation.
- b) Currency depreciation.
- c) Currency appreciation.
- d) Balance of payments equilibrium.

The following are advantages of economic integration except:

- a) Trade diversion.
- b) Trade creation.
- c) Reduced duplication.
- d) Technology transfer.

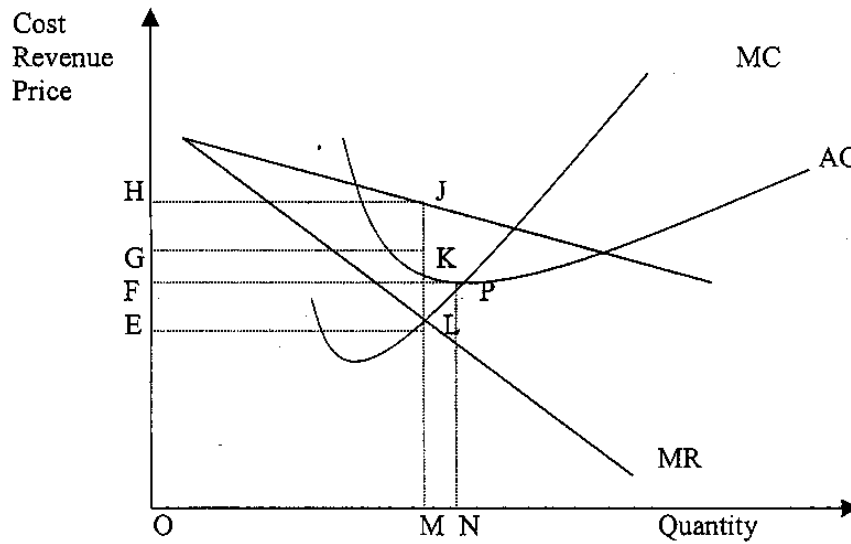
Use the following information to answer questions (x) and (xi) that follow:

Commodity	Base year price	New year price
X	350	650
Y	400	600
Z	120	75

- x) The simple Price Index for commodities X, Y, and Z is:
- a) 133
 - b) 62.5
 - c) 366
 - d) 870
- xi) The simple interpretation of the computation in (x) above would be that:
- a) Money value is relatively stable.
 - b) There was an inflationary situation.
 - c) There was a deflation.
 - d) Consumers attach a lot of importance on commodity X.
- xii) Which of the following is not TRUE?
- a) Mild inflation encourages production.
 - b) Galloping inflation is good for investment in real goods.
 - c) Inflation can occur with a depreciation.
 - d) Spiral inflation is caused by expansionary monetary policy.
- xiii) Which of the following may solve Keynesian unemployment:
- a) Expansionary monetary policy.
 - b) Reduced rural-urban drift.
 - c) Advertising existing jobs.
 - d) Non-sectarian employment policy.

- xiv) A country's economy is said to be in a balance of payments (BOP) problem when:
- a) There is persistent B.O.P surplus that causes a B.O.P dis-equilibrium.
 - b) There is greater foreign exchange expenditure which result into a B.O.P dis-equilibrium.
 - c) The monetary account is continuously in deficit.
 - d) Capital outflow is in same proportion with capital inflow.
- xv) Large firms enjoy economies of scale because:
- a) They use larger machines that are more economical than smaller ones.
 - b) They enjoy pecuniary advantages.
 - c) Management is more efficient with large firms.
 - d) Large firms get raw materials from nearby.
- xvi) Commercial banks are known to create money. If a given bank G received a deposit of 100,000 and has a cash ratio of 20%. The credit multiplier would be:
- a) 0.2
 - b) 5
 - c) 20
 - d) 100
- xvii) The maximum possible money that bank G in (xvi) above would create is:
- a) 100,000.
 - b) 20,000.
 - c) 500,000.
 - d) 2,000,000.

The figure below shows the revenue and cost curves of a firm.
Study it and answer questions (xviii) and (ixx) that follow:



xviii) The equilibrium point of the above firm is:

- a) L
- b) K
- c) J
- d) P

ixx) The total cost of producing output OM is represented by:

- a) OMLE
- b) OMJH
- c) ONPF
- d) OMKG

- xx) Which of the following may result when there is currency depreciation?
- a) Rise in the volume of exports.
 - b) Rise in volume of imports.
 - c) A Balance of payments equilibrium.
 - d) A decline in domestic production levels.

SECTION B:

Question 2:

- a)
 - (i) Define the term aggregate demand.
 - (ii) Briefly state what constitutes aggregate demand in an economy. (5 Marks)
- b) Discuss four factors that influence growth of Uganda's National Output. (6 Marks)
- c) State four benefits of economic growth in an economy. (4 Marks)

(Total 15 Marks)

Question 3:

- a) Illustrate the profit maximising position of a monopolist. (5 Marks)
- b) Briefly explain why the price of a monopolist might be higher and output lower than that of a perfect competitor. (4 Marks)
- c) Discuss three measures that can mitigate the problems associated with monopoly. (6 Marks)

(Total 15 Marks)

Question 4:

- a) With suitable illustration, distinguish between an inflationary gap and a deflationary gap. (3 Marks)
- b) Explain four causes of inflation in Uganda. (6 Marks)
- c) Discuss four measures that have been employed to reduce inflation in Uganda to its current level. (6 Marks)

(Total 15 marks)

Question 5:

- a) What is:
 - i) a fixed exchange rate regime, (2 Marks)
 - ii) a floating exchange rate regime? (2 Marks)
 - b) Discuss any four problems that may be associated with a free exchange rate regime in an economy. (6 Marks)
 - c) State five benefits of a floating exchange rates in the international system. (5 Marks)
- (Total 15 marks)**

Question 6:

Uganda's taxation system is said to be characterised by high levels of tax evasion and that has accounted for significant losses in tax revenue collection.

- a) With examples, distinguish between tax avoidance and tax evasion. (3 Marks)
 - b) Explain why tax evasion is high in Uganda. (6 Marks)
 - c) Suggest measures that should be adopted to ensure high levels of tax compliance in Uganda. (6 Marks)
- (Total 15 marks)**

Question 7:

Uganda's banking industry has been characterised by turbulence over the past years with many domestic banks disintegrating, collapsing or being ordered to close by the Central Bank. On the other hand, the international banks operating in the country are experiencing rapid expansion. Their operations and branch network are spreading in a number of urban centres in the country indicating that they are enjoying brisk business.

Given the above scenario, write a statement;

- a) Explaining why domestic banks in Uganda are collapsing while international banks are doing well. (6 marks)
- b) Showing what may result from the weak domestic banking sector with strong international banks operating in Uganda. (6 marks)
- c) Suggesting measures that government and the domestic banks should put in place to face the challenge. (3 marks)

(Total 15 marks)