

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

MONDAY, 17 DECEMBER 2001

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

Question 1:

- (i) Consumer sovereignty is when the:
 - (a) consumer determines what to buy.
 - (b) consumer determines what to consume.
 - (c) producer determines what to sell.
 - (d) consumer determines what to produce.

- (ii) Given that the price of commodity P fell from Uganda Shs. 1,000 to Shs 800 per unit, and the quantity demanded of commodity Q increased from 20 to 30 units per day. The cross elasticity of demand is:
 - (a) -2.5
 - (b) -2
 - (c) 2.5
 - (d) 5

- (iii) Open urban unemployment is best explained by the theory of:
 - (a) Cyclic unemployment.
 - (b) Subsistence theory.
 - (c) Rural-urban migration.
 - (d) Keynesian unemployment.

- (iv) Which policy tends to reduce both the rate of inflation and a balance of payment deficit?
 - (a) An increase in import tariffs.
 - (b) A reduction in government spending.
 - (c) A reduction in the level of interest rates.
 - (d) A rise in the country's currency exchange rate.

- (v) Given that potatoes are an inferior good, what will cause an increase in the price of potatoes?
 - (a) A decrease in advertising expenditure.
 - (b) An increase in the income of consumers.
 - (c) An increase in subsidies to potato producers.
 - (d) A failure of the potato harvest.

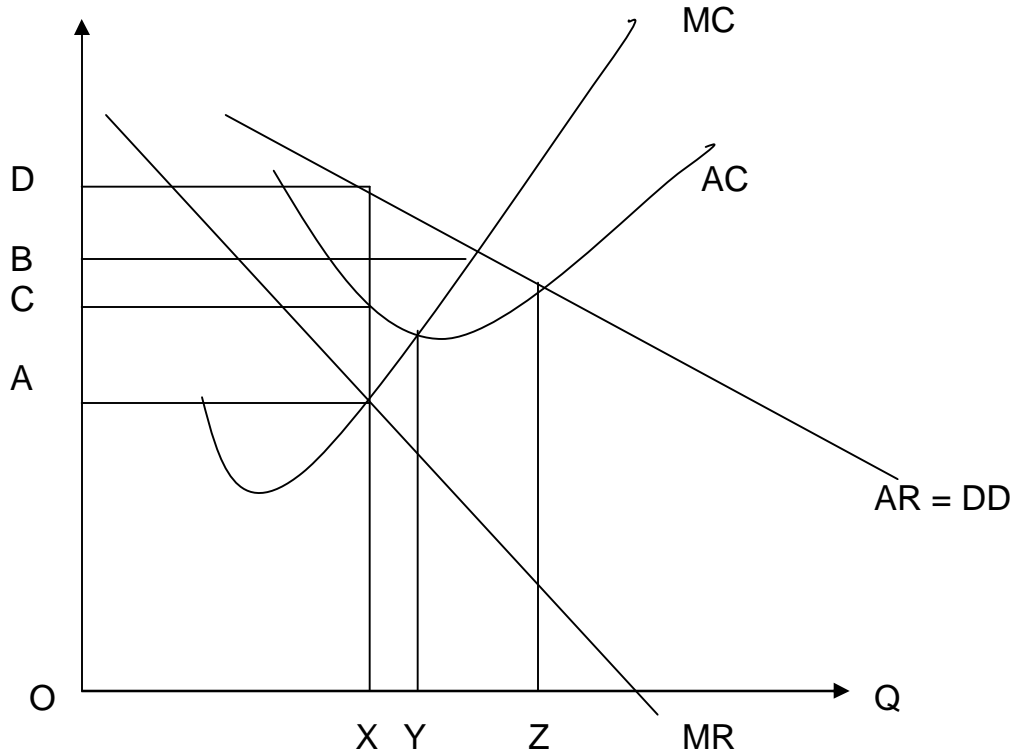
- (vi) The table below shows data taken from an economy's national income accounts.

	Shs billion
Total government expenditure	200
Private consumption	330
Total personal income	400
Transfer payments by government	110
Taxation on companies	100

What is the government's expenditure on goods and services?

- a) Shs 70 billion
 - b) Shs 90 billion
 - c) Shs 100 billion
 - d) Shs 200 billion.
- (vii) If the price of cooking gas rises considerably, what would be the likely effect on the market of electricity?
- (a) Supply would decrease and price would rise.
 - (b) Supply would increase and price would fall.
 - (c) Demand would increase and price would rise.
 - (d) Demand would fall and price would fall.
- (viii) What would explain why a firm's long-run average cost curve is U-shaped?
- (a) Economies of scale and diseconomies of scale.
 - (b) Changes in technology.
 - (c) An increase in capacity utilization as output expands.
 - (d) Rising factor prices after a certain level of output.
- (ix) The incidence of a tax imposed upon a particular good falls entirely upon producers when:
- a) demand is unit elastic.
 - b) supply is unit elastic.
 - c) demand is perfectly elastic.
 - d) demand is perfectly inelastic.

Questions (x – xii) refer to the diagram below which represents a monopoly firm.



(x) At which combination of output and price should the firm produce to maximize its profits?

- (a) OX and OA
- (b) OX and OC
- (c) OZ and OD
- (d) OX and OD

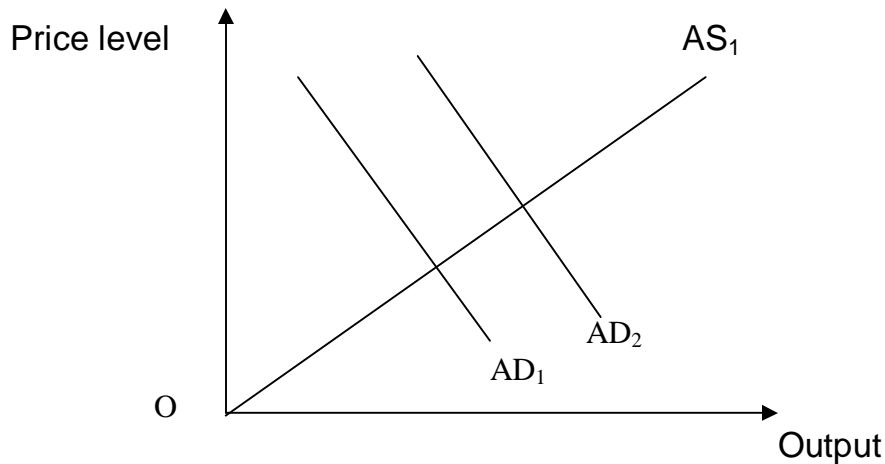
(xi) What is the optimum level of output?

- (a) OX
- (b) OY
- (c) OZ
- (d) OA

(xii) What is the abnormal profit per unit of output?

- (a) AB
- (b) AC
- (c) CD
- (d) BD

- (xiii) In the diagram, AD, and AS, are an economy's initial aggregate demand and supply curves.



What will cause the aggregate demand curve to shift to AD₂?

- (a) Increase in government expenditure.
 - (b) Increase in the price level.
 - (c) Appreciation of the currency.
 - (d) Increase in interest rates.
- (xiv) Which of the following statements best describes economic growth?
- (a) A general improvement in standard of living.
 - (b) A persistent quantitative increase in output.
 - (c) A quantitative and qualitative increase in output.
 - (d) An improvement in technology.
- (xv) A market structure with a few firms dealing in homogeneous or differentiated products is:
- (a) Monopolistic competition.
 - (b) Perfect competition.
 - (c) Monopoly.
 - (d) Oligopoly.

Questions (xvi – xvii) relate to the following list of features of money.

- (i) It is a medium of exchange.
- (ii) It should be easily portable.
- (iii) It must be stable in value.
- (iv) It is a store of wealth.
- (v) It must be acceptable by everyone.
- (vi) It should be durable.
- (vii) It acts as a standard of value.
- (viii) It acts as a standard for deferred payments.

(xvi) Which of the above are functions of money?

- (a) (i), (iv), (v), (vi).
- (b) (i), (iv), (vii), (viii).
- (c) (v), (vi), (vii), (viii).
- (d) (ii), (iii), (v), (vi).

(xvii) Which of the above are properties of money?

- (a) (ii), (iii), (iv), (viii)
- (b) (iii), (iv), (vi), (vii)
- (c) (ii), (iii), (v), (vi)
- (d) (i), (iv), (vii), (viii).

(xviii) Three companies; Simo Co. Ltd which grows pineapples and oranges; Ngoni Co. Ltd which deals in fruit canning and Kumi Co. Ltd who are exporters of fresh and canned fruits wish to operate in one name and hence have a combined business. What type of integration would be most appropriate for them?

- (a) Vertical combination
- (b) Cartel
- (c) Horizontal combination
- (d) Lateral merger.

- (xix) If the government wants to reduce aggregate demand, which of the following measures would be appropriate?
- (a) Higher rates of income tax and increased government expenditure.
 - (b) Higher rates of sales tax and reduced government expenditure.
 - (c) Reduced rates of sales tax and reduced government spending.
 - (d) Reduced rates of income tax and reduced government spending.
- (xx) The term marginal propensity to save means:
- (a) Income that is saved.
 - (b) Income that is consumed.
 - (c) Proportion of additional income consumed.
 - (d) Proportion of additional income saved.

SECTION B

Question 2:

- (a) (i) Give the three fundamental problems of resource allocation. **(3 marks)**
(ii) What is the relationship between choice and opportunity cost? **(2 marks)**
- (b) (i) Distinguish between a laissez-faire economy and a centrally planned economy. **(4 marks)**
(ii) Give three features of a free market economy. **(3 marks)**
(iii) Identify three problems associated with a laissez-faire economy. **(3 marks)**
(Total 15 marks)

Question 3:

- (a) Distinguish between
- (i) Quantity demanded and quantity supplied. **(2 marks)**
 - (ii) Market price and equilibrium price. **(2 marks)**
- (b) Explain any three ways of price determination in your country. **(6 marks)**
- (c) (i) Define the term “income elasticity of demand” **(2 marks)**
(ii) Give three causes of inelastic demand for a commodity. **(3 marks)**
(Total 15 marks)

Question 4:

- (a) Define the following terms in relation to unemployment.
- (i) Cyclical unemployment. (1 mark)
 - (ii) Technological unemployment (1 mark)
 - (iii) Voluntary unemployment (1 mark)
 - (iv) Involuntary unemployment. (1 mark)
- (b) (i) Give any four causes of rural-urban migration in your country. (4 marks)
- (ii) Show how rural-urban migration and unemployment are related. (2 marks)
- (c) Give five effects of unemployment in your country. (5 marks)

(Total 15 marks)

Question 5:

- (a) Distinguish between:
- (i) Gross domestic product and Gross National product (2 marks)
 - (ii) Economic growth and economic development. (2 marks)
- (b) (i) Explain why an increase in the growth rate of an economy may not necessarily lead to an improvement in the standard of living of the people. (5 marks)
- (ii) Give reasons why the Gross National product of Britain is higher than that of Uganda. (6 marks)

(Total 15 marks)

Question 6:

- (a) Differentiate between:
- (i) Perfect competition and perfect oligopoly. (2 marks)
 - (ii) Monopoly and monopolistic competition. (2 marks)
- (b) Illustrate how an oligopolist firm maximizes profits in the short run. (5 marks)

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- (c) (i) Define the term “non price competition”. ***(2 marks)***
(ii) Give four forms of non price competition in your country. ***(4 marks)***

(Total 15 marks)

Question 7:

Uganda government has been involved in privatization of state owned enterprises.

- (a) (i) Give three reasons why the government is doing this. ***(3 marks)***
(ii) How is the country likely to benefit from this policy? ***(3 marks)***
(iii) What problems have been faced in the privatization process? ***(3 marks)***
- (b) What are some of the International Monetary Fund (IMF) conditionalities that have been implemented in Uganda? ***(3 marks)***
- (c) What has been done to attract foreign investors in Uganda? ***(3 marks)***

(Total 15 marks)