

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

WEDNESDAY, 19 JUNE 2002

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 multiple-choice 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) Opportunity cost is best defined as the cost of a product:
 - (a) In money terms.
 - (b) In terms of the alternative which has been forgone.
 - (c) In terms of the price consumers are willing to pay.
 - (d) In terms of the resources used to make it.
- (ii) The supply curve is upward sloping because of:
 - (a) Entry of new firms in the industry.
 - (b) The cost of production.
 - (c) The price of the commodity.
 - (d) The level of technology.
- (iii) The term 'marginal propensity to consume' means:
 - (a) Income that is consumed.
 - (b) Income that is saved.
 - (c) Proportion of additional income saved.
 - (d) Proportion of additional income consumed.
- (iv) A market structure with many firms dealing in differentiated products is:
 - (a) Monopolistic competition.
 - (b) Perfect competition.
 - (c) Bi-lateral monopoly.
 - (d) Oligopoly.
- (v) The incidence of a tax imposed upon a particular good falls entirely upon consumers when:
 - (a) Demand is unit elastic.
 - (b) Demand is perfectly inelastic.
 - (c) Supply is unit elastic.
 - (d) Demand is perfectly elastic.

- (vi) The measure of the degree of responsiveness of demand of one commodity to the changes in price of another related commodity is described as:
- (a) Price elasticity of demand.
 - (b) Elastic demand.
 - (c) Cross elasticity of demand.
 - (d) Inelastic demand.
- (vii) The price of commodity N increased from Shs. 2000= to Shs. 3000= and as a result the quantity demanded of commodity M reduced from 40 to 20 units per week. Calculate elasticity of demand for commodity M
- (a) -2
 - (b) +2
 - (c) +1
 - (d) -1
- (viii) Commodities M and N in (vii) above are:
- (a) Substitute goods.
 - (b) Complementary goods.
 - (c) Goods of ostentation.
 - (d) Inferior goods.

Study the table below showing the terms of trade for country A and answer questions (ix) and (x):

YEAR	IMPORT PRICE INDEX	EXPORT PRICE INDEX
1996	100	100
1997	105	108
1998	109	106

- (ix) What were the terms of trade in 1997?
- (a) 97.22
 - (b) 105.24
 - (c) 99.40
 - (d) 102.85

(x) Which of the following statements is true about the table?

The terms of trade:

- (a) Improved between 1996 and 1997 and then worsened between 1997 and 1998.
- (b) Worsened between 1996 and 1997 and then improved between 1997 and 1998.
- (c) Improved continuously during the period in question.
- (d) Worsened continuously during the period in question.

(xi) When the total expenditure of a country abroad exceeds the total receipts from abroad in a given year, the country is said to experience:

- (a) An unfavourable balance of trade.
- (b) An unfavourable terms of trade.
- (c) An unfavourable balance of payments.
- (d) Equilibrium balance of trade.

(xii) The exchange rate of the Uganda shilling is given as US \$ 1 = Ug. Shs. 1,200=. What will be the exchange rate after devaluation of the Shilling by 10%?

- (a) US \$ 1 = Ug. Shs. 1,320.
- (b) US \$ 1 = Ug. Shs. 1,080.
- (c) US \$ 1 = Ug. Shs. 1,120.
- (d) US \$ 1 = Ug. Shs. 120.

(xiii) Bank A received a deposit of Shs 200,000 from Mr. Muwonge and the cash ratio is 10%. Calculate the total credit created in Bank A.

- (a) Shs 500,000.
- (b) Shs 100,000.
- (c) Shs 2,000,000.
- (d) Shs 1,000,000.

(xiv) What is the bank credit multiplier in (xiii) above?

- (a) 5.
- (b) 15.
- (c) 20.
- (d) 10.

- (xv) Gross Domestic Product (GDP) is best defined as:
- (a) The money value of all goods and services produced within a country in a given year.
 - (b) The total volume of goods and services produced within a country in a given year.
 - (c) The total volume of goods and services produced by nationals of a country in a given year.
 - (d) The money value of goods and services produced by nationals of a country in a given year.
- (xvi) The following are the reasons why Uganda undertakes economic planning except:
- (a) In order to increase national income.
 - (b) To limit foreign investment.
 - (c) To reduce income inequalities.
 - (d) In order to improve balance of payments position.
- (xvii) Involuntary unemployment can be defined as a situation where people:
- (a) who are willing to work at current wage rates cannot find jobs.
 - (b) are working less hours than they are meant to work.
 - (c) are not willing to work at the current wage rates.
 - (d) are doing jobs they are not trained for.
- (xviii) An expansionary monetary policy may involve the following tools except:
- (a) Lowering the legal reserve requirement.
 - (b) Reducing the bank rate.
 - (c) Buying securities from the Public.
 - (d) Selling securities to the Public.
- (xix) Which of the following will not cause cost-push inflation?
- (a) High wages of workers.
 - (b) Scarcity of goods.
 - (c) High transport costs.
 - (d) High interest rates on loans.
- (xx) A firm's short run average cost curve is U-shaped because of:
- (a) The Law of diminishing returns.
 - (b) Economies and diseconomies of scale.
 - (c) Changes in technology.
 - (d) Employing more factors of production.

SECTION B

Question 2

- (a) (i) Distinguish between a firm and an industry (2 marks)
(ii) Mention two objectives of a firm (2 marks)
 - (b) With examples distinguish between fixed costs and variable costs of a firm. (4 marks)
 - (c) (i) Define monopolistic competition (2 marks)
(ii) With the help of a diagram briefly explain how a firm under monopolistic competition determines output, price and profits in the short run. (5 marks)
- (Total 15 marks)**

Question 3

- (a) (i) Distinguish between Gross Domestic Product at factor cost and Gross Domestic Product at market price. (4 marks)
(ii) State four problems encountered in measurement of National Income. (4 marks)
 - (b) (i) Give three goals of development in your country. (3 marks)
(ii) Explain four major obstacles to rapid economic growth in your country. (4 marks)
- (Total 15 marks)**

Question 4

- (a) Distinguish between the following:
 - (i) Mild inflation and hyper inflation. (2 marks)
 - (ii) Demand pull and cost push inflation. (2 marks)
 - (b) Give four causes of inflation in your country. (4 marks)
 - (c) (i) What is an inflationary gap? (2 marks)
(ii) Give five ways of closing an inflationary gap. (5 marks)
- (Total 15 marks)**

Question 5

- (a) Give four ways in which commercial banks make profits. **(4 marks)**
 - (b) Distinguish between the assets and liabilities of a commercial bank. **(2 marks)**
 - (c) Explain the role of Commercial Banks in the development of your country. **(4 marks)**
 - (d) What are the reasons for the poor performance of commercial banks in your country? **(5 marks)**
- (Total 15 marks)**

Question 6

- (a) (i) What is a fiscal policy? **(1 mark)**
(ii) Identify two major components of a fiscal policy. **(2 marks)**
 - (b) Distinguish between:
 - (i) Taxable capacity and tax base. **(2 marks)**
 - (ii) A direct tax and an indirect tax. **(2 marks)**
 - (c) Explain four factors responsible for low tax revenue in your country. **(8 marks)**
- (Total 15 marks)**

Question 7

- (a) What is regional economic integration? **(2 marks)**
 - (b) Distinguish between trade creation and trade diversion in relation to regional integration. **(4 marks)**
 - (c) Give four conditions necessary for regional economic integration. **(4 marks)**
 - (d) Outline five benefits which Uganda will enjoy from being a member of the East African Community. **(5 marks)**
- (Total 15 marks)**