

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

MONDAY, 16 JUNE 2003

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

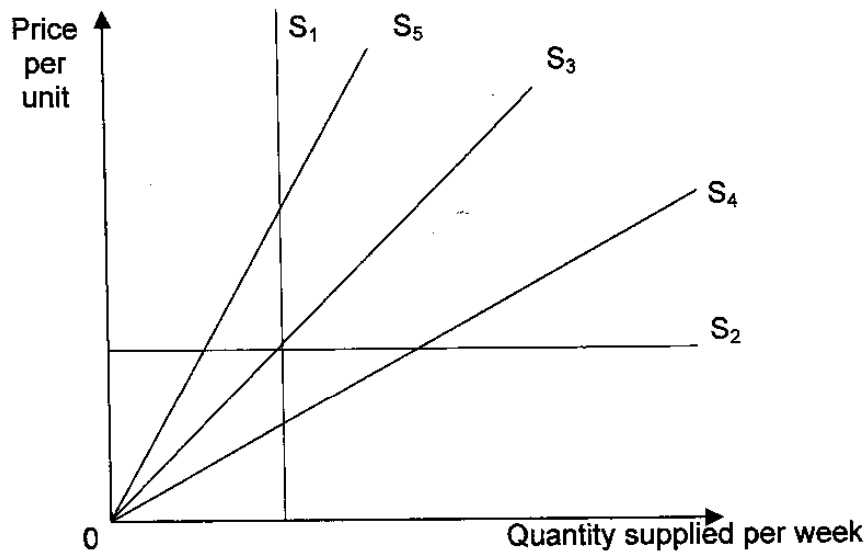
- (i) Which of the following is the best description of consumer surplus? The consumer:
 - (a) Pays more than he expected.
 - (b) Exhausts all his income.
 - (c) Pays less than he would be willing to pay.
 - (d) Obtains more quantity of a good or service than expected.
- (ii) The fundamental problem facing economics as a discipline is:
 - (a) Inflation in the domestic economy.
 - (b) How to cure unemployment.
 - (c) How to help people make money.
 - (d) The scarcity of resources relative to human wants.
- (iii) If the production possibility frontier (PPF) shifts outwards, the best economic interpretation would be:
 - (a) Improvement in technology.
 - (b) Economic boom.
 - (c) Reduction in the amount of productive resources.
 - (d) Decline in the level of technology.
- (iv) The circular flow of income shows the:
 - (a) Flow of resources between the household and government sectors.
 - (b) Flow of resources between the household and business sectors.
 - (c) Flow of resources between the firms and government sector.
 - (d) Flow of resources between the government and foreign sector.
- (v) When the level of output is zero;
 - (a) Total fixed costs are zero.
 - (b) Total variable costs are constant.
 - (c) Total fixed costs exist and are equal to total costs.
 - (d) Total costs are falling.
- (vi) Under what circumstances is the long run average cost curve falling?
 - (a) Economies of scale.
 - (b) Diseconomies of scale.
 - (c) Declining returns to scale.
 - (d) Economies and diseconomies of scale.

(vii) An example of vertical combination is the merger of:

- (a) Two meat retailing firms.
- (b) A spinning firm and a weaving firm.
- (c) Two very large wholesale textile distributors.
- (d) Three secretarial / employment agencies in one town.

Questions (viii) to (x) are based on figure 1 showing supply elasticity.

Figure 1.



(viii) If supply is unitary elastic, it can be depicted as one of the following supply curves in figure 1.

- (a) S_1
- (b) S_2
- (c) S_3
- (d) S_4

(ix) A perfectly elastic supply is depicted as:

- (a) S_1
- (b) S_5
- (c) S_3
- (d) S_2

- (x) Which of the following gives the most accurate description of the pairs in the supply curves?
- (a) S_1 and S_4 are perfectly elastic and relatively inelastic respectively.
 - (b) S_2 and S_5 are perfectly elastic and perfectly inelastic respectively.
 - (c) S_1 and S_4 are perfectly elastic and perfectly inelastic respectively.
 - (d) S_1 and S_5 are perfectly inelastic and relatively inelastic respectively.
- (xi) When comparing the standards of living of people in different countries by using national income figures as a basis, which of the following factors must be considered?
- (i) Rate of exchange between currencies.
 - (ii) Changes in price levels.
 - (iii) Differences in population totals.
 - (iv) Distribution of national income.
- (a) (i) and (ii).
 - (b) (i), (ii) and (iii).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (ii), (iii) and (iv).
- (xii) The purpose of calling for special deposits from commercial banks is to:
- (a) Raise loans for the treasury.
 - (b) Reduce their liquidity.
 - (c) Raise loans for overseas markets.
 - (d) Increase their liquidity.
- (xiii) If there is a deficit in a country's balance of payments, it can generally be dealt with directly and in part by:
- (a) Importing gold.
 - (b) Increasing foreign investments.
 - (c) Selling foreign investments.
 - (d) Increasing workers' wages in the export trade.
- (xiv) Assume that the supply curve for a commodity can be represented as a straight line sloping upwards from left to right and a tariff is imposed on the commodity. Other things being equal, the supply curve would:
- (a) Remain unchanged.
 - (b) Shift to the right.
 - (c) Become parallel to the horizontal axis.
 - (d) Shift to the left.

- (xv) Which of the following would be classified as determinants of a nation's taxable capacity?
- (i) real wealth.
 - (ii) possibilities of tax evasion.
 - (iii) effect of tax on incentives.
 - (iv) rate of exchange.
- (a) (i), (ii) and (iii).
 - (b) (ii), (iii) and (iv).
 - (c) (i), (ii), (iii) and (iv).
 - (d) (i) only
- (xvi) The essence of freely floating exchange rates is that they are fixed:
- (a) As a result of IMF intervention only.
 - (b) According to variations in demand and supply.
 - (c) As a result of long-term investment.
 - (d) Only when East African Community states feel free to do so.
- (xvii) Given that commercial banks are required to keep 20 percent of their deposits as a reserve. If a customer deposits £5,000 in Bank A and assuming there is no leakage of money from A to other banks, the maximum amount of money Bank A can create is:
- (a) £75,000
 - (b) £50,000
 - (c) £10,000
 - (d) £25,000
- (xviii) If Uganda's export price index for 2002 was 260 while her import price index for the same year was 130, it can be concluded that Uganda's terms of trade were:
- (a) 50, hence unfavourable.
 - (b) 300, hence unfavourable.
 - (c) 200, hence favourable.
 - (d) 130, hence favourable.
- (xix) One of the ways in which inflation can be curbed is:
- (a) Increasing the workers' wages.
 - (b) Reducing taxation.
 - (c) Incurring a budget deficit.
 - (d) Reducing aggregate demand.

- (xx) Tax incidence refers to:
- (a) Where the final tax burden rests.
 - (b) The object which is taxed.
 - (c) The burden of tax collection by government.
 - (d) The penalty for evading taxes.

SECTION B

Question 2

- (a) What is meant by the term "price"? **(1 mark)**
 - (b) Distinguish between price control and price discrimination. **(4 marks)**
 - (c) Explain five methods of price determination in your country. **(10 marks)**
- (Total 15 marks)**

Question 3

- (a) What are "infant industries"? **(1 mark)**
 - (b) Suggest four ways of protecting infant industries in your country. **(4 marks)**
 - (c) Give five reasons for implementing the protectionist policy in an economy. **(10 marks)**
- (Total 15 marks)**

Question 4

- (a) Define the term "unemployment". **(1 mark)**
 - (b) Give any four causes of unemployment in your country. **(4 marks)**
 - (c) Explain the measures being taken to solve the unemployment problem in your country. **(10 marks)**
- (Total 15 marks)**

Question 5

- (a) Define the term exchange rate. **(1 mark)**
 - (b) What is the difference between currency devaluation and currency depreciation? **(4 marks)**
 - (c) Explain the effects of currency depreciation on your country's economy. **(10 marks)**
- (Total 15 marks)**

Question 6

- (a) Define the term tax base. **(1 mark)**
 - (b) Give four roles of taxation in an economy. **(4 marks)**
 - (c) Suggest five ways of improving tax collection in your country. **(10 marks)**
- (Total 15 marks)**

Question 7

- (a) What is meant by monetary policy? **(1 mark)**
 - (b) Explain any four objectives of the monetary policy in your country. **(8 marks)**
 - (c) Give six factors limiting the successful implementation of the monetary policy in your country. **(6 marks)**
- (Total 15 marks)**