

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

MONDAY, 15 DECEMBER 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.

SECTION A**Question 1**

- (i) Suppose you have given up nothing in order to get something, the opportunity cost of what you get is:
 - (a) Not quantifiable.
 - (b) Equal to unity.
 - (c) Numerically zero.
 - (d) Not expressible in monetary terms.
- (ii) Land, as a factor of production in economics, does not include:
 - (a) Natural resources, which are gifts of nature.
 - (b) Resources used in reclaiming land from the sea.
 - (c) Geological discoveries like oil.
 - (d) Water and climate.
- (iii) Economists use the word demand to refer to the quantity of a:
 - (a) good needed by people.
 - (b) commodity a consumer is willing to pay for.
 - (c) commodity a consumer is willing and able to pay for at a given price per time period.
 - (d) good which the consumer needs in the market.
- (iv) Successful price discrimination involves:
 - (a) Very high costs of keeping the markets separate.
 - (b) An absence of advertising.
 - (c) The pressure of a variety of low priced substitutes.
 - (d) Different elasticities of demand in each market.
- (v) Assume that a farmer sells his produce to an Agricultural Marketing Board. He is not allowed to sell to any other institution or to any other persons. In effect, the Board is, from his view a
 - (a) Monopsony.
 - (b) Monopoly
 - (c) Oligopoly
 - (d) Duopoly
- (vi) Double counting must be avoided when calculating national income. This means that there must be a deduction of the value of:
 - (a) Food subsidies.
 - (b) Transfer payments.
 - (c) Personal consumption of alcoholic drinks.
 - (d) Net interest from abroad.

- (vii) Most of the national debt is “dead weight” in the sense that it is:
- (a) Bound to increase from year to year.
 - (b) Accumulated as the result of past capital investment.
 - (c) Not covered by any real asset.
 - (d) The responsibility of the Treasury.
- (viii) In addition to rates, which of the following would be included among the main sources of local government finance?
- (i) Local VAT.
 - (ii) Central government grants.
 - (iii) Regional employment premiums.
 - (iv) Payment for provision of services.
- (a) (i) and (iii).
 - (b) (ii) and (iv).
 - (c) (ii), (iii) and (iv).
 - (d) (i), (ii), (iii), and (iv).
- (ix) The principle arm of the General Agreement on Tariffs and Trade, signed in 1947 by twenty three countries, was to:
- (a) Create an international bank to assist in international trade financing.
 - (b) Increase tariffs by negotiations between the IMF and the countries involved.
 - (c) Work for a common level of wages in all export industries in Europe.
 - (d) Reduce tariffs by negotiation and to eliminate import quotas.
- (x) Which of the following are among the assumptions of the theory of comparative cost?
- (i) Perfect competition.
 - (ii) No costs of transport.
 - (iii) Freedom of trade from artificial restrictions.
 - (iv) An unlimited number of countries.
- (a) (i) and (ii).
 - (b) (ii) and (iii).
 - (c) (i), (ii) and (iii).
 - (d) (i), (ii), (iii) and (iv)
- (xi) The amount of interest to be paid on a loan will depend on the character of the borrower, the expenses incurred in making the loan and the:
- (a) prevailing rate of pure interest.
 - (b) general level of taxation.
 - (c) amount of money in circulation.
 - (d) general level of prices.

- (xii) In considering costs of production, the “short run period” is that period of time:
- (a) Needed to get the product on the market and in the hands of the consumer.
 - (b) During which it is not possible to vary the quantity of some factors of production.
 - (c) During which the factors of production are organized so as to achieve optimum output.
 - (d) During which the firm makes minimum profits only.
- (xiii) A rise in the price of a commodity will generally call for a bigger supply and this will be brought about partly by existing firms expanding their output and partly by:
- (a) The general expansion of the market
 - (b) The discovery of new sources of raw materials.
 - (c) New firms being attracted into the industry.
 - (d) Changes in the general level of consumers’ incomes.
- (xiv) The Economist sees the essential feature of “the market” as
- (a) A building in which goods are bought by contract.
 - (b) Its universality.
 - (c) A guarantee of fairness in all dealings.
 - (d) Relationship between buyers and sellers.
- (xv) Among the marketing economies of scale accruing to a large firm is the ability to:
- (a) Employ large ‘indivisible’ units of capital.
 - (b) Obtain loans from the government.
 - (c) Buy raw materials in bulk at lower prices.
 - (d) Borrow from the commercial banks at reduced rates.
- (xvi) External economies of scale are essentially from:
- (a) A firm’s individual policies.
 - (b) Localisation of industry.
 - (c) Government economic policy.
 - (d) Free transferability of shares.
- (xvii) A general measure for the value of money is:
- (a) Per capita income.
 - (b) Price movements on the stock exchange.
 - (c) The general price level as reflected in the price index.
 - (d) The volume of production as reflected in the production index.

- (xviii) Which of the following is not an invisible item of trade?
- (a) Banking services.
 - (b) Shipping services.
 - (c) Services of a foreign consultant.
 - (d) Importing motorcycles.
- (xix) Which of the following factors is likely to result in a commodity having inelastic demand?
- (a) There are few close substitutes for the product.
 - (b) The commodity is a luxury item.
 - (c) There is little advertising for the product.
 - (d) The commodity accounts for a large proportion of consumer's income.
- (xx) The present exchange rate for the Uganda shilling to the US dollar is US \$ 1 = Shs1800. Suppose the exchange rate changes to US \$ 1 = Shs 2000. This implies that the:
- (a) Shilling has been over valued.
 - (b) Shilling has been devalued.
 - (c) Dollar has been devalued.
 - (d) Exchange rate has been destabilized.

SECTION B

Question 2

Study the table below showing income and quantity demand of commodity X and answer the questions that follow:

Income (Shillings)	Quantity demanded of X (kg)
10,000	50
30,000	20

- (a) Define the term "income elasticity of demand". (1 mark)
 - (b) Calculate the income elasticity of demand for commodity X. (2 marks)
 - (c) What type of commodity is X? Give a reason for your answer. (2 marks)
 - (d) Explain the factors that affect the elasticity of demand in your country. (10 marks)
- (Total 15 marks)**

Question 3

- (a) Define the term 'national income'.
(1 mark)
- (b) Distinguish between national income valued at factor cost and national income valued at market price.
(4 marks)
- (c) Suggest steps that should be taken to increase the level of national income in your country.
(10 marks)
- (Total 15 marks)**

Question 4

- (a) What is meant by 'Public Finance'?
(2 marks)
- (b) Assess the role of taxation in an economy.
(8 marks)
- (c) State five reasons why people evade paying taxes in your country.
(5 marks)
- (Total 15 marks)**

Question 5

- (a) Explain the causes of agricultural price fluctuations in your country.
(10 marks)
- (b) What are the effects of agricultural price fluctuations in your country?
(5 marks)
- (Total 15 marks)**

Question 6

- (a) Define "Keynesian Unemployment".
(1 mark)
- (b) What, according to J.M. Keynes, are the solutions to the unemployment problem?
(6 marks)
- (c) Explain the limitations of the Keynesian Theory of unemployment in developing countries.
(8 marks)
- (Total 15 marks)**

Question 7

- (a) What is meant by liabilities of a commercial bank?
(3 marks)
- (b) How are commercial banks able to achieve the objectives of:
(i) Liquidity? (3 marks)
(ii) Profitability? (4 marks)
- (c) Explain the role of commercial banks in the development of your country.
(5 marks)
- (Total 15 marks)**