

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### ECONOMIC ENVIRONMENT – PAPER 2

THURSDAY, 24 JUNE 2004

#### 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**

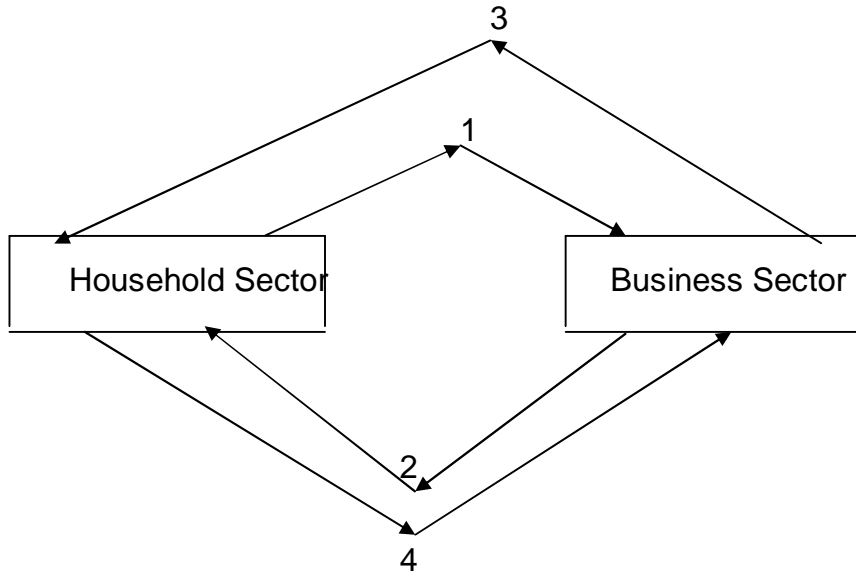
- (i) If a new plastic bowl costs Shs. 4,000, a pair of slippers costs Shs. 800 and an exercise book costs Shs. 200, the opportunity cost of a new plastic bowl is:
- (a) 5 pairs of slippers and 20 exercise books.
  - (b) 20 pairs of slippers and 5 exercise books.
  - (c) 5 pairs of slippers and 4 exercise books.
  - (d) 3 pairs of slippers and 8 exercise books.
- (ii) In a market economy, who makes decisions:
- (a) Business firms.
  - (b) Consumers.
  - (c) The State.
  - (d) Employees.
- (iii) An industry is likely to be located near the market where the raw material:
- (a) loses weight in the manufacturing process.
  - (b) has a low value per ton.
  - (c) is widely available on many sites.
  - (d) is perishable.
- (iv) A builder buys a plot of land on which he can build either 5 or 6 houses. If he builds 5 houses, the average cost of each house is Shs 80,000, if he builds 6 houses the average cost is Shs. 75,000. What is the marginal cost of the 6<sup>th</sup> house?
- (a) Shs 80,000.
  - (b) Shs 75,000.
  - (c) Shs 20,000.
  - (d) Shs 50,000.
- (v) When an economist says that demand for commodity X has changed, he means that;
- (a) The demand curve for X has shifted from left to right.
  - (b) The demand curve for X remains constant but falls from left to right.
  - (c) The demand curve for X has shifted either to the right or to the left.
  - (d) The demand curve for X has moved from right to left because of increase in its price.

- (vi) The quantity supplied of commodity Z increased from 200 to 250 units per week due to an increase in price from Shs. 500 to Shs 1,000 per unit. Calculate the elasticity of supply for commodity Z.
- (b) 40
  - (c) 0.25
  - (d) 0.4
  - (e) 2.5
- (vii) What is the nature of supply for commodity Z in question (vi) above?
- (a) Unitary Elastic.
  - (b) Elastic.
  - (c) Inelastic.
  - (d) Perfectly Elastic.
- (viii) Which form of economic integration allows free mobility of factors of production?
- (a) Preferential trade area.
  - (b) Free trade area.
  - (c) Customs union.
  - (d) Common market.
- (ix) Which of the following policies can be used to close a deflationary gap?
- (i) Increasing taxes.
  - (ii) Reducing taxes and increasing government expenditure.
  - (iii) Expansionary monetary policy.
  - (a) (ii) and (iii).
  - (b) (i) and (ii).
  - (c) (i).
  - (d) (i), (ii) and (iii).
- (x) The “vent for surplus” theory is about:
- (a) Provision of market for foreign produced goods to encourage international trade.
  - (b) Employing idle resources to satisfy foreign demand and increase national income.
  - (c) Both import and export policies.
  - (d) Regional economic integration.
- (xi) Unemployment caused by a deficiency in aggregate demand is called
- (a) Structural.
  - (b) Frictional.
  - (c) Cyclic.
  - (d) Disguised.

(xii) When a country's import prices rise at a faster rate than the export prices then:

- (a) The balance of payments will improve.
- (b) The balance of trade becomes unfavourable.
- (c) There will be an improvement in terms of trade.
- (d) There will be a deterioration in terms of trade.

Study the diagram below and use it to answer questions (xiii) and (xiv).



(xiii) Which arrows indicate a real flow of national income?

- (a) 1 and 2.
- (b) 1 and 3.
- (c) 2 and 4.
- (d) 3 and 2.

(xiv) A monetary flow of national income is indicated by arrows:

- (a) 1 and 3.
- (b) 2 and 4.
- (c) 3 and 4
- (d) 3 and 2.

(xv) A managed exchange rate is one which is:

- (a) Managed by the central bank.
- (b) Allowed to fluctuate between two given margins determined by the monetary authority.
- (c) Liberalized by the monetary authority.
- (d) Fixed at a specific value by the central bank.

(xvi) Marginal revenue of a firm is:

- (a) Revenue obtained after selling a commodity.
- (b) Revenue obtained per unit output sold.
- (c) Additional revenue got after selling an extra unit of output.
- (d) The difference between total cost and total revenue.

**Use the following table which shows the amounts of income tax payable at different levels of income to answer questions (xvii) – (xix):**

Monthly Income in UShs	Tax Payable
100,000	10,000
200,000	20,000
300,000	30,000

- (xvii) What are the rates of tax for these different income levels?
- (a) 10%, 20%, 30%.
  - (b) 30%, 20%, 10%.
  - (c) 10%, 30%, 20%.
  - (d) 10%, 10%, 10%.
- (xviii) What form of tax is this?
- (a) Proportional tax.
  - (b) Regressive tax.
  - (c) Progressive tax.
  - (d) Degressive tax.
- (xix) Give an example of proportional tax.
- (a) Graduated tax.
  - (b) Development tax.
  - (c) Income tax.
  - (d) Octoroi tax.
- (xx) Which of the following is not being used by the Ugandan Government to control the rate of inflation?
- (a) Open market operations.
  - (b) Regulation of interest rates.
  - (c) Increase in private investment.
  - (d) Restrictive fiscal policy.

## SECTION B

### Question 2

- (a) What is an economic system? (1 mark)
  - (b) Give four features of a capitalist economy. (4 marks)
  - (c) What are the advantages and disadvantages of a capitalist economy? (10 marks)
- (Total 15 marks)**

**Question 3**

- (a) Distinguish between export promotion and import substitution strategies of industrial development. **(4 marks)**
- (b) What are the merits and demerits of relying on an import substitution industrial development strategy? **(11 marks)**
- (Total 15 marks)**

**Question 4**

- (a) How does a customs union differ from a free trade area? **(4 marks)**
- (b) Give any five features of an economic union. **(5 marks)**
- (a) What are the likely benefits of the East African Community to the member states? **(6 marks)**
- (Total 15 marks)**

**Question 5**

- (a) Define inflation. **(1 mark)**
- (b) Distinguish between headline inflation and underlying inflation. **(4 marks)**
- (c) Discuss the effects of inflation on an economy. **(10 marks)**
- (Total 15 marks)**

**Question 6**

- (a) Distinguish between voluntary and involuntary unemployment. **(4 marks)**
- (b) Give five causes of voluntary unemployment. **(5 marks)**
- (c) Explain the measures being taken to reduce unemployment in your country. **(6 marks)**
- (Total 15 marks)**

**Question 7**

- (a) Distinguish between a partial plan and a comprehensive plan. **(4 marks)**
- (b) Give four advantages of a comprehensive plan. **(4 marks)**
- (c) Why is it necessary to carry out development planning in your country? **(7 marks)**
- (Total 15 marks)**