

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

WEDNESDAY, 22 JUNE 2005

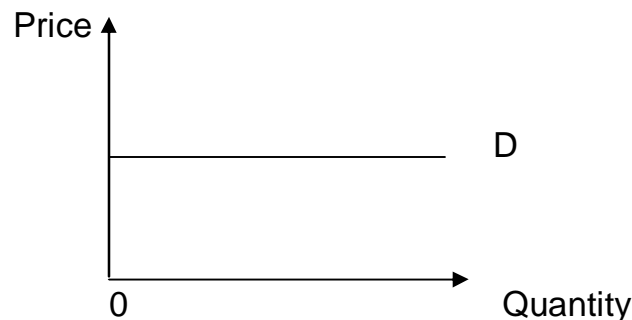
INSTRUCTIONS TO CANDIDATES:

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) Market demand is:
- (a) Demand in the market.
 - (b) Demand at prevailing average prices.
 - (c) Ability to pay the market price.
 - (d) The sum of all individual demands.
- (ii) An inferior good is one which:
- (a) Consumers will demand less of as income increases.
 - (b) Consumers will demand less of as price falls.
 - (c) Is of inferior quality to similar products.
 - (d) Is sold at a lower price than substitutes.
- (iii) In a subsistence economy, production is mainly for:
- (a) Export.
 - (b) Internal market.
 - (c) Personal consumption.
 - (d) Barter trade.

The diagram below shows a demand curve for commodity A. Use it to answer questions (iv) and (v) below:



- (iv) Demand for commodity A is:
- (a) Inelastic.
 - (b) Unitary elastic.
 - (c) Perfectly inelastic.
 - (d) Perfectly elastic.
- (v) What is the co-efficient of price elasticity of demand for commodity A?
- (a) Zero.
 - (b) One.
 - (c) Infinity.
 - (d) Ranges between zero and one.

Use the following information to answer questions (vi) – (vii).

Below is a list of the main costs incurred by a firm:

- (i) Rent of buildings.
 - (ii) Raw materials.
 - (iii) Wages and salaries.
 - (iv) Depreciation of machinery.
 - (v) Power supplies expenses.
- (vi) Which costs may be classified as variable costs?
- (a) (i) and (iv).
 - (b) (ii), (iii) and (v).
 - (c) (i), (iv) and (v).
 - (d) (iii) and (iv).
- (vii) Which costs of production above are fixed?
- (a) (ii), (iii) and (iv).
 - (b) (i), (iv) and (v).
 - (c) (i) and (iv).
 - (d) (iii) and (iv).
- (viii) If a firm exporting tea merges with a firm processing tea, they form:
- (a) A cartel.
 - (b) Lateral merger.
 - (c) Conglomerate merger.
 - (d) Vertical merger.
- (ix) The following are common sources of capital to companies in Uganda except:
- (a) Creating depreciation funds.
 - (b) Issuing new ordinary shares.
 - (c) Direct borrowing from financial institutions.
 - (d) Ploughing back the profits.
- (x) Which of the following does not apply to monopoly?
- (a) One seller and many buyers.
 - (b) No government interference.
 - (c) Government interference.
 - (d) Inelastic demand.

- (xi) A number of cashiers in one of the city banks were laid off due to introduction of computers; this created:
 - (a) Frictional unemployment.
 - (b) Structural unemployment.
 - (c) Technological unemployment.
 - (d) Casual unemployment.
- (xii) Economies of scale are enjoyed by firms:
 - (a) using skilled labour.
 - (b) using modern technology.
 - (c) producing at optimum.
 - (d) operating at a large scale.
- (xiii) A group of countries which allows free trade amongst its members and imposes a common external tariff against non-members is called:
 - (a) free trade area.
 - (b) economic union.
 - (c) trading zone.
 - (d) customs union.
- (xiv) A restrictive monetary policy may involve the following tools except:
 - (a) Buying securities from the public.
 - (b) Selling securities to the public.
 - (c) Increasing the legal reserve requirement.
 - (d) Increasing the bank rates.
- (xv) A persistent decline in the general price level is described as:
 - (a) Mild inflation.
 - (b) Deflation.
 - (c) Depression.
 - (d) Slump.
- (xvi) A regressive tax is one whose tax rate:
 - (a) Reduces with increase in income.
 - (b) Increases with increase in income.
 - (c) Remains constant.
 - (d) Is higher than the income level.
- (xvii) The major reason why trade unions are formed is to:
 - (a) Make profits.
 - (b) Demand for higher pay.
 - (c) Employ more workers.
 - (d) Advise government.

- (xviii) The difference between total receipts and total expenditure of a country is described as:
- (a) Balance of trade.
 - (b) Terms of trade.
 - (c) Balance of payments.
 - (d) Net trade balance.
- (xix) Credit creation is the process through which commercial banks:
- (a) Make profits.
 - (b) Overcharge their customers.
 - (c) Use deposits to create more money.
 - (d) Give out loans.
- (xx) The number of times the initial deposit in a commercial bank multiplies itself to bring about the total deposit is called:
- (a) Co-efficient multiplier.
 - (b) Investment multiplier.
 - (c) Accelerator principle.
 - (d) Bank credit multiplier.

SECTION B

Question 2

- (a) Distinguish between a laissez-faire economy and a centrally planned economy. (4 marks)
- (b) Describe five features of a capitalist economy. (5 marks)
- (c) Give six demerits of a laissez-faire economy. (6 marks)
- (Total 15 marks)**

Question 3

- (a) Distinguish between spatial monopoly and statutory monopoly. (2 marks)
- (b) How does monopoly arise in an economy? (8 marks)
- (c) Give any five disadvantages of monopoly. (5 marks)
- (Total 15 marks)**

Question 4

- (a) What reasons are usually advanced by governments to justify control of International trade?
(5 marks)
- (b) Describe the methods used by governments to control International trade.
(10 marks)
- (Total 15 marks)**

Question 5

- (a) Define the term 'exchange rate'.
(1 mark)
- (b) Differentiate between currency devaluation and currency depreciation.
(4 marks)
- (c) What conditions are necessary for devaluation to succeed in an economy?
(10 marks)
- (Total 15 marks)**

Question 6

- (a) Distinguish between economic growth and economic development.
(4 marks)
- (b) Outline the benefits of economic growth.
(5 marks)
- (c) What factors determine the rate of economic growth?
(6 marks)
- (Total 15 marks)**

Question 7

- (a) Define the term 'price'.
(1 mark)
- (b) Give four reasons why demand for a commodity may increase when its price has not reduced.
(4 marks)
- (c) Explain any five factors that determine demand for a given commodity in the market.
(10 marks)
- (Total 15 marks)**