

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

TUESDAY, 19 JUNE 2007

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) Resale price maintenance refers to the practice of:
 - (a) Manufacturers fixing prices of their goods.
 - (b) Sellers fixing prices at which to sell the goods.
 - (c) Government maintaining stable prices.
 - (d) Fixing low prices for goods.
- (ii) Indirect production refers to production:
 - (a) of capital goods.
 - (b) of consumer goods.
 - (c) for sale.
 - (d) for home use.
- (iii) If two or more commodities can be produced using the same resources, they are said to have:
 - (a) joint supply.
 - (b) competitive supply.
 - (c) complementary supply.
 - (d) independent supply.
- (iv) Costs that are incurred even at zero output are called:
 - (a) implicit costs.
 - (b) explicit costs.
 - (c) prime costs.
 - (d) supplementary costs.
- (v) What is the relationship between average revenue (AR) and marginal revenue(MR) of a firm under monopolistic competition?
 - (a) AR is equal to MR.
 - (b) AR is less than MR.
 - (c) AR is greater than MR.
 - (d) AR falls as MR rises.
- (vi) Gross national product at market price minus net income from abroad is equal to:
 - (a) GDP at factor cost.
 - (b) GDP at market price.
 - (c) NNP at factor cost.
 - (d) NNP at market price

- (vii) Depreciation of currency means:
- (a) persistent increase in the general price level.
 - (b) loss of value of the local currency in terms of foreign currency.
 - (c) loss of value of the hard currency.
 - (d) persistent decrease in the general price level.
- (viii) Given that a rise in national income from Shs 5,200 million to Shs 5,400 million led to an increase in savings from Shs 400 million to Shs 420 million; calculate the marginal propensity to save.
- (a) 0.01
 - (b) 0.1
 - (c) 10
 - (d) 100
- (ix) The following are objectives of development except:
- (a) economic growth.
 - (b) political stability.
 - (c) full employment.
 - (d) infrastructure development.
- (x) Economic rent is for a factor of production.
- (a) surplus payment
 - (b) minimum payment
 - (c) hire price
 - (d) payment
- (xi) A system where a customer instructs the bank to make regular payments to the creditors is known as:
- (a) credit transfer.
 - (b) bank draft.
 - (c) standing order.
 - (d) money order.
- (xii) What is the monetarist view on the cause of inflation?
- (a) Excessive aggregate demand.
 - (b) Increased costs of production.
 - (c) Artificial shortage of goods.
 - (d) Increased money supply.

- (xiii) Capital markets are highly characterized by:
- (a) Long term lending plans.
 - (b) High exchange rate.
 - (c) Poor loan portfolio management.
 - (d) Effective loan portfolio management.
- (xiv) The main difference between commercial banks and other lending institutions is that commercial banks:
- (a) create credit.
 - (b) accept deposits.
 - (c) charge low interest rates.
 - (d) lend large sums of money.
- (xv) Demand for labour refers to the:
- (a) number of people willing to work at a given wage rate.
 - (b) number of people employers are willing to employ at a given wage rate.
 - (c) goods and services that workers are willing to buy using the earned income.
 - (d) nominal wage that trade unions demand through collective bargaining.
- (xvi) Unemployment which is caused by movement of labour from one job to another is termed as:
- (a) casual unemployment.
 - (b) structural unemployment.
 - (c) frictional unemployment.
 - (d) cyclical unemployment.
- (xvii) The current account of a balance of payments (BOP) statement shows:
- (a) gains from international trade.
 - (b) foreign reserves of a country.
 - (c) exchange rate in monetary terms.
 - (d) imports and exports of a country.
- (xviii) Demand pull inflation can be controlled through:
- (a) wage freeze.
 - (b) reduction in interest rates.
 - (c) reduction in costs of production.
 - (d) fixing maximum price.

- (xix) If a commodity with elastic demand is overtaxed, who will bear most of the tax?
- (a) Consumers.
 - (b) Producers.
 - (c) Individuals.
 - (d) Both producers and consumers in equal proportions.
- (xx) The law of diminishing returns operates in the:
- (a) private sector.
 - (b) public sector.
 - (c) short run.
 - (d) long run.

SECTION B

Question 2

- (a) Distinguish between scarcity and choice. (4 marks)
- (b) Explain **four** fundamental economic questions of an economy. (8 marks)
- (c) Identify **three** circumstances under which the concept of opportunity cost is applied in economics. (3 marks)
- (Total 15 marks)**

Question 3

- (a) Distinguish between monopoly and monopolistic competition. (4 marks)
- (b) Identify **six** causes of monopoly in an economy. (6 marks)
- (c) Give **five** merits of monopoly in an economy. (5 marks)
- (Total 15marks)**

Question 4

- (a) Distinguish between a free trade area and a customs union. (4 marks)
- (b) Outline **three** conditions necessary for economic integration to succeed. (3 marks)
- (c) Give **four** merits and **four** demerits of regional economic integration. (8 marks)
- (Total 15marks)**

Question 5

- (a) Define the term “international trade”.
(1 mark)
 - (b) Differentiate between the law of comparative advantage and absolute advantage.
(4 marks)
 - (c) Explain **five** criticisms of the law of comparative advantage.
(10 marks)
- (Total 15 marks)

Question 6

- (a) What is meant by the statement ‘structure of an economy’?
(2 marks)
 - (b) Describe **four** main features of the Ugandan economy.
(8 marks)
 - (c) Give **five** obstacles to rapid Industrial development in Uganda.
(5 marks)
- (Total 15 marks)

Question 7

- (a) What is a parastatal organization?
(1 mark)
 - (b) Distinguish between privatization and nationalization.
(4 marks)
 - (c) Explain **five** problems that have been encountered in the privatization of public enterprises in your country.
(10 marks)
- (Total 15 marks)