

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### ECONOMIC ENVIRONMENT – PAPER 2

**TUESDAY, 9 DECEMBER 2008**

#### 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 1 mark.
4. Section **B** has **six** questions and only **four** are to be attempted. Each question carries 20 marks.
5. Please, read further instructions on the answer book.

## SECTION A

### Question 1

- (i) Marginal revenue of a firm can be defined as additional revenue:
  - (a) per unit of output produced.
  - (b) per unit of output sold.
  - (c) from an extra unit of output produced.
  - (d) from an extra unit of output sold.
- (ii) Which of the following is **NOT** a condition for price discrimination to succeed?
  - (a) Consumer ignorance.
  - (b) Personal service.
  - (c) Existence of monopoly.
  - (d) Government interference.
- (iii) The main aim of a commercial bank is to:
  - (a) lend money to businessmen.
  - (b) create employment.
  - (c) make profits.
  - (d) keep people's money.
- (iv) The government has mainly used ..... to regulate money supply in Uganda.
  - (a) bank rate
  - (b) cash rate
  - (c) open market operations
  - (d) selective credit control
- (v) Which of the following statements is true about mild inflation?
  - (a) It encourages investment.
  - (b) It makes the government unpopular.
  - (c) It discourages production.
  - (d) It causes brain drain.
- (vi) .... is a characteristic of a deflationary situation in an economy.
  - (a) Slight increase in prices
  - (b) Low aggregate demand
  - (c) Increase in production
  - (d) Prosperity.

- (vii) Full employment is the situation where:
- (a) labour is paid very high wages.
  - (b) labour is not changing jobs.
  - (c) all people looking for jobs are able to get them.
  - (d) employers are not exploiting employees.
- (viii) Unemployment caused by expiry of a contract is:
- (a) frictional.
  - (b) cyclical.
  - (c) structural.
  - (d) casual.
- (ix) The term revaluation refers to the:
- (a) official increase in the value of a currency in terms of other currencies.
  - (b) persistent increase in the exchange rate of foreign currency.
  - (c) legal reduction in the value of a currency in terms of other currencies.
  - (d) legal increase in the currency of a country in terms of other currencies.
- (x) The main purpose of the World Trade Organisation (WTO) is to:
- (a) control fluctuations in exchange rates.
  - (b) advocate for free international trade.
  - (c) lend money to third world countries.
  - (d) ensure direct investment in low developed countries.
- (xi) Rostow identified the following stages of economic growth **EXCEPT**:
- (a) investment.
  - (b) take off.
  - (c) welfare.
  - (d) drive to maturity.
- (xii) The strategy of setting up industries to produce formerly imported goods is called:
- (a) outward looking.
  - (b) inward looking.
  - (c) import promotion.
  - (d) import industrialization.

- (xiii) The incidence of a direct tax is borne by:
- (a) the consumer.
  - (b) the producer.
  - (c) the income earner.
  - (d) both the consumer and the producer.
- (xiv) Taxable capacity refers to the:
- (a) amount of income that is taxed.
  - (b) percentage of income paid as tax.
  - (c) total amount paid as tax.
  - (d) ability to pay tax.
- (xv) The co-existence of a rural sector and an urban sector is an example of:
- (a) economic dualism.
  - (b) social dualism.
  - (c) cultural dualism.
  - (d) international dualism.
- (xvi) A ..... is a type of business organization where members are liable for the debts incurred by the business to the extent of losing personal property.
- (a) joint stock company
  - (b) partnership
  - (c) private limited company
  - (d) public limited company
- (xvii) Foreign aid given in form of money or assets is called:
- (a) technical.
  - (b) capital.
  - (c) humanitarian.
  - (d) military.
- (xviii) Regional economic integration mainly aims at:
- (a) diverting trade.
  - (b) promoting unity.
  - (c) creating trade.
  - (d) raising revenue.

(xix) Which of the following does not apply to a subsistence sector?

- (a) Low levels of output.
- (b) Low technology.
- (c) Barter exchange.
- (d) Income inequalities.

(xx) Public debt management is usually carried out by the:

- (a) Government.
- (b) Public sector.
- (c) Ministry of Finance.
- (d) Central Bank.

## SECTION B

### Question 2

(a) Give **four** characteristics of:

- (i) human wants. (4 marks)
- (ii) resources. (4 marks)

(b) (i) Outline **two** assumptions of a production possibility frontier (PPF) curve.

(2 marks)

(ii) Explain **five** causes of the shift of production possibility frontier (PPF) curve to the right.

(10 marks)

(Total 20 marks)

### Question 3

(a) Distinguish between a commodity market and a factor market.

(4 marks)

(b) State **six** circumstances under which the demand for a commodity may be abnormal.

(6 marks)

(c) Explain **five** causes of a downward sloping demand curve.

(10 marks)

(Total 20 marks)

#### Question 4

- (a) Define the following terms:
- (i) Gross domestic product. (2 marks)
  - (ii) Gross national product. (2 marks)
  - (iii) Disposable income (2 marks)
  - (iv) Per capita income. (2 marks)
- (b) Give **six** reasons why the Gross National Product of Britain is higher than that of Uganda.

(12 marks)

(Total 20 marks)

#### Question 5

- (a) Explain **four** factors that determine money supply in an economy. (8 marks)
- (b) What is the relationship between interest rate and demand for money? (2 marks)
- (c) Explain **five** factors that determine interest rates in an economy.

(10 marks)

(Total 20 marks)

#### Question 6

- (a) Outline **six** determinants of labour supply in an economy. (6 marks)
- (b) Distinguish between piece rate and time rate systems of wage payment. (4 marks)
- (c) Explain **five** advantages of using a piece rate system of wage payment.

(10 marks)

(Total 20 marks)

#### Question 7

- (a) Define the term 'development planning'. (2 marks)
- (b) Differentiate between a partial plan and a comprehensive plan. (4 marks)
- (c) Explain **seven** reasons why your country carries out economic development planning.

(14 marks)

(Total 20 marks)