

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

TUESDAY, 17 JUNE 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) The practice of a manufacturer fixing the retail price for his commodity is known as:
 - (a) reserve pricing.
 - (b) price legislation.
 - (c) resale price maintenance.
 - (d) price discrimination.
- (ii) The taking of a decision out of a range of alternatives is:
 - (a) choice.
 - (b) opportunity cost.
 - (c) scarcity.
 - (d) allocation.
- (iii) Which of the following does **NOT** explain the nature of the supply curve?
 - (a) Entry of new firms.
 - (b) Reallocation of resources.
 - (c) Behaviour of low income groups.
 - (d) Attempts to maintain equilibrium in the market.
- (iv) When a large firm sells its output and gets raw materials at low average costs; it is said to reap ... of scale.
 - (a) financial economies.
 - (b) managerial economies.
 - (c) technical economies.
 - (d) marketing economies.
- (v) A country's national income is Shs 840 billion, its population is six million people, its per capita income is:
 - (a) Shs 140 billion.
 - (b) Shs 140,000.
 - (c) Shs 1,400,000.
 - (d) Shs 14 billion.
- (vi) The amount of goods and services a unit of money can buy in a given period is called the:
 - (a) exchange of money.
 - (b) value of money.
 - (c) quantity of money.
 - (d) stock of money.

- (vii) The primary function of the central bank is:
- (a) lending money to commercial banks.
 - (b) issuing the country's legal tender.
 - (c) discounting bills of exchange.
 - (d) lending money to government officials.
- (viii) The relationship between the total value of visible exports and total value of visible imports of a country is:
- (a) balance of trade.
 - (b) terms of trade.
 - (c) invisible trade.
 - (d) balance of payments.
- (ix) inflation arises from buying expensive goods from outside countries.
- (a) Creeping
 - (b) Imported
 - (c) Cost push
 - (d) Demand pull
- (x) Economic development is economic growth accompanied by:
- (a) production of more capital goods.
 - (b) more machines being used in production.
 - (c) more equitable distribution of income.
 - (d) labour working for more hours.
- (xi) The existence of makes Uganda a mixed economy.
- (a) both private sector and public sector
 - (b) production basically for profit motive
 - (c) rigid price controls
 - (d) centralized planning
- (xii) When an economy depends on a few countries as market for its exports it suffers from:
- (a) export dependence.
 - (b) sectoral dependence.
 - (c) geographical concentration of trade.
 - (d) commodity concentration of trade.

- (xiii) A budget occurs when intended government expenditure is lower than expected government revenue in a given fiscal year.
- (a) balanced
 - (b) surplus
 - (c) deficit
 - (d) national
- (xiv) A form of trade restriction that prescribes the amount to be imported or exported in a given period is:
- (a) customs duty.
 - (b) embargo.
 - (c) exercise duty.
 - (d) quota.
- (xv) The amount of foreign currencies and gold held by the central bank is described as:
- (a) exchange ratio.
 - (b) devaluation reserves.
 - (c) foreign exchange reserves.
 - (d) bank reserves.
- (xvi) The excess payment to labour for very efficient work and work accomplished before schedule is:
- (a) piece rate payment.
 - (b) economic rent payment.
 - (c) subsistence wage payment.
 - (d) bonus payment.
- (xvii) The final resting place of the money burden of a tax is the of a tax.
- (a) impact
 - (b) incidence
 - (c) effect
 - (d) base

Use the table below to answer questions (xviii) and xix).

Year	Price Index
2000	100
2004	128

- (xviii) The cost of living between the two years has:
- (a) fallen.
 - (b) persisted.
 - (c) risen.
 - (d) remained constant.
- (xix) Between 2000 and 2004, the general price level:
- (a) increased.
 - (b) decreased.
 - (c) had no change.
 - (d) persistently fell.
- (xx) A plan that covers all sectors in the economy is a plan.
- (a) sectoral
 - (b) centralized
 - (c) comprehensive
 - (d) partial

SECTION B

Question 2

- (a) Distinguish between a change in supply and an increase in quantity supplied.
(4 marks)
- (b) Give any **eight** reasons why the supply of a commodity may fall despite no decrease in its price.
(8 marks)
- (c) Explain any **four** factors that influence the elasticity of supply for a commodity.
(8 marks)
- (Total 20 marks)**

Question 3

- (a) Distinguish between imperfect oligopoly and perfect oligopoly.
(4 marks)
- (b) With the aid of a diagram show how a firm under oligopoly maximizes profits in the short run.
(6 marks)
- (c) Explain any **five** merits of oligopoly markets.
(10 marks)
- (Total 20 marks)**

Question 4

- (a) Give any **four** features of Uganda's economy. (4 marks)
 - (b) Outline any **six** problems met by the private sector in Uganda. (6 marks)
 - (c) Suggest **five** ways of improving the performance of the private sector. (10 marks)
- (Total 20 marks)**

Question 5

- (a) Distinguish between an industrial union and a craft union. (4 marks)
 - (b) Give any **four** objectives of trade union. (8 mark)
 - (c) Outline **eight** factors that can enable a trade union to get wage increase for the workers. (8 marks)
- (Total 20 marks)**

Question 6

- (a) Differentiate between barter terms of trade and income terms of trade. (4 marks)
 - (b) Explain **five** factors that lead to the unfavourable terms of trade faced by your country. (10 marks)
 - (c) Give **three** ways of improving a country's terms of trade. (6 marks)
- (Total 20 marks)**

Question 7

- (a) Define the following terms of unemployment:
 - (i) voluntary. (2 marks)
 - (ii) involuntary. (2 marks)
 - (iii) frictional. (2 marks)
 - (iv) cyclical. (2 marks)
 - (b) Explain **six** causes of unemployment in an economy. (12 marks)
- (Total 20 marks)**