

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

TUESDAY, 8 DECEMBER 2009

INSTRUCTIONS TO CANDIDATES:

1. Time allowed: **3 hours 15 minutes**.
The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.
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) Scarcity can be defined as:
 - (a) under utilization of resources.
 - (b) limited supply relative to demand.
 - (c) unlimited demand for goods and services.
 - (d) alternative use of resources.
- (ii) As more units of a commodity are consumed, marginal utility:
 - (a) increases, reaches maximum and falls.
 - (b) falls continuously.
 - (c) increases at an increasing rate.
 - (d) increases at a decreasing rate.
- (iii) An increase in price of commodity A from Shs 1,000 to Shs 1,200 led to an increase in its quantity supplied from 10 units to 15 units. Calculate elasticity of supply for commodity A.
 - (a) 2.5
 - (b) -2.5
 - (c) 0.4
 - (d) -0.4
- (iv) Mobility of a factor of production refers to the ease with which a factor can move from one:
 - (a) geographical area to another.
 - (b) occupation to another.
 - (c) use to another.
 - (d) geographical area or job to another.
- (v) Which of the following combination represents injections into an open economy?
 - (a) Savings and investment.
 - (b) Investment and exports.
 - (c) Savings and imports.
 - (d) Investment and taxes.
- (vi) Which of the following can be used by the government to close a deflationary gap?
 - (a) Reducing government expenditure.
 - (b) Selling government securities.
 - (c) Increasing exports.
 - (d) Increasing imports.

- (vii) A capital market is a market
- (a) for long term loans.
 - (b) for short term loans.
 - (c) where value of money capital is determined.
 - (d) where capital assets are traded.
- (viii) The following situations are likely to arise from the ongoing credit crunch, **EXCEPT**:
- (a) loss of jobs
 - (b) increase in value of money.
 - (c) decline in foreign funding.
 - (d) depreciation of the local currency.
- (ix) Which of the following is **NOT** part of the assets of a commercial bank?
- (a) Share capital.
 - (b) Loans and advances given out.
 - (c) Deposits with the central bank.
 - (d) Long term investment in other institutions.
- (x) The central bank carries out the following functions, **EXCEPT**:
- (a) issuing currency.
 - (b) controlling the value of the currency.
 - (c) lending money to the public.
 - (d) managing public debt.
- (xi) Through selective credit control, the central bank requires commercial banks to:
- (a) charge low interest rates on loans.
 - (b) obtain loans from the government.
 - (c) control credit forcefully.
 - (d) give out loans to selected customers / sectors only.
- (xii) A situation where prices are increasing at a low rate, not more than 10% per annum is known as inflation.
- (a) suppressed
 - (b) hyper
 - (c) creeping
 - (d) speculative

- (xiii) Where it is not easy to measure the amount of work done, the system of wage payment is appropriate.
- (a) bonus
 - (b) profit sharing
 - (c) piece rate
 - (d) time rate
- (xiv) Which of the following is **NOT** a function of trade unions?
- (a) Demanding high wages for the members.
 - (b) Marketing produce for the members.
 - (c) Demanding better working conditions.
 - (d) Ensuring job security.
- (xv) Unemployment caused by physical or mental disability is:
- (a) residual.
 - (b) casual.
 - (c) disguised.
 - (d) hidden.
- (xvi) A flexible exchange rate is one which is
- (a) pegged against a particular foreign currency.
 - (b) purely determined by market forces of demand and supply.
 - (c) fixed by the monetary authority at a given value.
 - (d) allowed to fluctuate within given margins determined by the monetary authority.
- (xvii) The growth strategy that advocates for investing in all sectors at the same time is called:
- (a) big push.
 - (b) high mass.
 - (c) unbalanced.
 - (d) balanced.
- (xviii) A plan that covers the whole economy is
- (a) perspective.
 - (b) macro.
 - (c) democratic.
 - (d) indicative.

- (xix) Which of the following is **NOT** reason for economic development planning?
- (a) Proper allocation of resources.
 - (b) Reducing unemployment.
 - (c) Increasing income inequalities.
 - (d) Reducing external dependence.
- (xx) Which of the following is **NOT** a direct tax?
- (a) Value added tax
 - (b) Pay as you earn.
 - (c) Capital gains tax.
 - (d) Profit tax.

SECTION B

Question 2

- (a) Distinguish between a firm and an industry. (4 marks)
- (b) Explain **six** roles of small scale firms in the development of a country. (12 marks)
- (c) Give **four** ways through which a small scale firm can expand in size. (4 marks)
- (Total 20 marks)**

Question 3

- (a) State **four** ways through which commercial banks achieve the objective of profitability. (4 marks)
- (b) Give **four** factors that determine the bank credit multiplier. (4 marks)
- (c) Explain **six** limitations to the process of credit creation by commercial banks (12 marks)
- (Total 20 marks)**

Question 4

- (a) Define the following types of inflation:
- | | | |
|-------|------------|-----------|
| (i) | Structural | (2 marks) |
| (ii) | Imported | (2 marks) |
| (iii) | Cost push | (2 marks) |
| (iv) | Monetary | (2 marks) |
- (b) Explain **three** causes of structural inflation in an economy. (6 marks)
- (c) Give **six** negative effects of inflation. (6 marks)
- (Total 20 marks)**

Question 5

- (a) State the law of comparative advantage. (2 marks)
- (b) Outline **four** assumptions of the law of comparative advantage. (4 marks)
- (c) Explain **seven** criticisms of the law of comparative advantage (14 marks)
- (Total 20 marks)**

Question 6

- (a) Mention **four** stages of economic growth according to Rostow. (4 marks)
- (b) Give **four** circumstances when economic growth may not lead to economic development. (4 marks)
- (c) Explain **six** merits of adopting an export promotion industrial development strategy. (12 marks)
- (Total 20 marks)**

Question 7

- (a) Define the following types of taxes.
- | | | |
|-------|------------------|-----------|
| (i) | Progressive tax | (2 marks) |
| (ii) | Regressive tax | (2 marks) |
| (iii) | Proportional tax | (2 marks) |
- (b) Give **four** reasons why people evade paying taxes. (4 marks)
- (c) Suggest **five** ways of improving tax collection in your country. (10 marks)
- (Total 20 marks)**