

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL ONE

#### ECONOMIC ENVIRONMENT – PAPER 2

**TUESDAY, 16 JUNE 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) Which of the following terms does **NOT** describe human wants?
- (a) Insatiable.
  - (b) Durable.
  - (c) Complementary.
  - (d) Competitive.
- (ii) In a competitive market, equilibrium is attained when:
- (a) normal profits are earned.
  - (b) super normal profits are earned.
  - (c) supply is equal to demand.
  - (d) marginal cost is equal to marginal revenue.
- (iii) Which of the following explains land as a fixed factor of production?
- (a) It earns economic rent.
  - (b) It occupationally immobile.
  - (c) It has a perfectly inelastic supply.
  - (d) It is highly demanded.
- (iv) In 2003, a bag of cement cost Shs 10,000. Today, the same bag costs Shs 25,000. Calculate the simple price index for cement.
- (a) 15,000.
  - (b) 35,000.
  - (c) 40.
  - (d) 250.
- (v) The desire by individuals to hold their assets in cash form for day-to-day purchases is called:
- (a) transaction motive.
  - (b) precautionary motive.
  - (c) speculative motive.
  - (d) finance motive.
- (vi) ..... has been frequently used by the Central Bank to control inflation in Uganda.
- (a) Bank rate
  - (b) Devaluation
  - (c) Currency reforms
  - (d) Selling of treasury bills

- (vii) Which of the following is true of the labour force in developing countries?
- (a) Highly productive.
  - (b) Highly skilled.
  - (c) Mainly composed of the young.
  - (d) Highly motivated.
- (viii) Regional economic integration mainly aims at:
- (a) maximum profits.
  - (b) full employment.
  - (c) trade creation.
  - (d) trade diversion.
- (ix) Which of the following is **NOT** a cost of economic growth?
- (a) Inflation.
  - (b) Unemployment.
  - (c) Pollution.
  - (d) Rural-urban migration.
- (x) Which of the following best explains the failure to implement perspective plans?
- (a) Poor infrastructure.
  - (b) Uncertainties.
  - (c) Limited funds.
  - (d) Limited skills.
- (xi) Debt financing refers to:
- (a) paying back borrowed money.
  - (b) financing a debt.
  - (c) raising revenue through borrowing.
  - (d) debt servicing.
- (xii) Which of the following policies does **NOT** promote the growth of the private sector?
- (a) Nationalization.
  - (b) Liberalization.
  - (c) Privatization.
  - (d) Subsidization.

- (xiii) A decline in aggregate demand causes:
- (a) mass unemployment.
  - (b) structural unemployment.
  - (c) seasonal unemployment.
  - (d) market unemployment.
- (xiv) Which of the following is **NOT** an argument for protectionism?
- (a) Infant industry.
  - (b) Political stability.
  - (c) Employment.
  - (d) Revenue.
- (xv) A positive cross elasticity of demand describes the relationship between two commodities which are:
- (a) inferior.
  - (b) giffen.
  - (c) substitutes.
  - (d) complementary.
- (xvi) Which of the following is **NOT** true about the balanced growth strategy of economic growth and development?
- (a) Expands employment opportunities.
  - (b) Reduces dependency.
  - (c) Improves balance of payments position.
  - (d) Widens income inequalities.
- (xvii) A minimum wage is fixed for the following reasons **EXCEPT**:
- (a) reducing inflation.
  - (b) reducing strikes.
  - (c) increasing productivity.
  - (d) reducing income inequality.
- (xviii) Supply rigidities in an economy lead to:
- (a) speculative inflation.
  - (b) structural inflation.
  - (c) stagflation.
  - (d) monetary inflation.

- (xix) ..... planning is where the government makes plans but provides a conducive atmosphere in terms of favourable policies to guide the private sector to implement the plans.
- (a) Democratic
  - (b) Directive
  - (c) Indicative
  - (d) Decentralized
- (xx) Capital markets provide finance mainly for:
- (a) long term investments.
  - (b) short term investments.
  - (c) foreign investors.
  - (d) joint ventures.

## SECTION B

### Question 2

- (a) Define the following types of economic systems:
- (i) Subsistence economy. (2 marks)
  - (ii) Free market economy. (2 marks)
  - (iii) Planned economy. (2 marks)
  - (iv) Mixed economy. (2 marks)
- (b) Explain **three** advantages and **three** disadvantages of a planned economy.
- (12 marks)  
(Total 20 marks)

### Question 3

- (a) (i) State the law of diminishing returns. (2 marks)
- (ii) Give **four** assumptions of the law of diminishing returns. (4 marks)
- (b) (i) Distinguish between internal economies of scale and external economies of scale. (4 marks)
- (ii) Using examples, explain **five** types of internal economies of scale enjoyed by a firm. (10 marks)
- (Total 20 marks)

**Question 4**

- (a) Differentiate between the following terms in relation to national income.
- (i) Investment multiplier and export multiplier. (4 marks)
  - (ii) Deflationary gap and inflationary gap. (4 marks)
- (b) Explain **six** reasons why per capita income may not be a good indicator of the standard of living in an economy. (12 marks)
- (Total 20 marks)**

**Question 5**

- (a) Define the term 'cash ratio'. (2 marks)
- (b) Bank A received an initial deposit of Shs 100,000. Assuming a cash ratio of 10%, calculate the total credit that is created by the bank. (4 mark)
- (c) (i) Give **four** assumptions of the process of credit creation. (4 marks)
- (ii) Explain **five** limitations of credit creation in your country. (10 marks)
- (Total 20 marks)**

**Question 6**

- (a) Distinguish between devaluation and revaluation. (4 marks)
- (b) State **four** effects of devaluation in an economy. (4 marks)
- (c) Give **six** conditions necessary for a devaluation policy to succeed in an economy. (12 marks)
- (Total 20 marks)**

**Question 7**

- (a) How does a progressive tax differ from a regressive tax? (4 marks)
- (b) Give **six** reasons for levying taxes. (6 marks)
- (c) Describe **five** characteristics of a good tax. (10 marks)
- (Total 20 marks)**