

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

THURSDAY, 17 JUNE 2010

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) Goods on which the poor spend a large proportion of their income and whose demand falls as price decreases are:
- (a) giffen goods.
 - (b) inferior goods.
 - (c) necessity goods.
 - (d) ostentation goods.
- (ii) Which of the following is **NOT** a characteristic of human wants?
- (a) Insatiable.
 - (b) Exhaustible.
 - (c) Competitive.
 - (d) Complementary.
- (iii) The technical relationship between the input and the resulting output of a production process is the:
- (a) producer's output.
 - (b) production possibility frontier.
 - (c) producer's resources.
 - (d) production function.
- (iv) Which of the following sets correctly represents factors of production?
- (a) Land, minerals, lakes, labour.
 - (b) Labour, land, capital, technology,
 - (c) Land, capital, scientific knowledge, labour.
 - (d) Labour, land, capital, entrepreneurship.
- (v) The income inequality between commercial farmers and peasant subsistence farmers in agriculture is:
- (a) regional.
 - (b) sectoral.
 - (c) social.
 - (d) intrasectoral.
- (vi) Themultiplier relates the initial change in total expenditure to the final increase in national income.
- (a) investment.
 - (b) consumption.
 - (c) income.
 - (d) expenditure.

- (vii) Money issued by the central bank and which must, by law, be accepted as medium of exchange in a given country is called:
- (a) currency.
 - (b) legal tender.
 - (c) fiat money.
 - (d) quasi money.
- (viii) Keynes identified the following motives of demand for money **EXCEPT**:
- (a) speculative.
 - (b) commercial.
 - (c) transactions.
 - (d) precautionary.
- (ix) The economic rent earned by a factor is smaller than the supply price when the elasticity of supply is:
- (a) unit.
 - (b) elastic.
 - (c) inelastic.
 - (d) perfectly elastic.
- (x) Which of the following does **NOT** affect interest rates in an economy?
- (a) Money supply.
 - (b) Government policy.
 - (c) Demand for loanable funds.
 - (d) Employment opportunities.
- (xi) Insurance companies and development banks are examples of:
- (a) banking financial intermediaries.
 - (b) savings and credit intermediaries.
 - (c) non-banking financial intermediaries.
 - (d) complementaries to commercial banks.
- (xii) Excessive printing of money, increased government expenditure and increasing population are likely to result into inflation known as:
- (a) demand pull.
 - (b) cost push.
 - (c) structural.
 - (d) bottleneck.

- (xiii) Which of the following is **NOT** a characteristic of the labour force in Uganda?
- (a) It is dominated by the young between 15 and 30 years of age.
 - (b) It may grow faster than the population.
 - (c) A big proportion of it is illiterate and semi-skilled.
 - (d) It is highly paid.
- (xiv) Poor infrastructure and irregular supply of electricity that force some firms to close and lay off workers lead to unemployment known as:
- (a) frictional.
 - (b) disguised.
 - (c) structural.
 - (d) Keynesian.
- (xv) Countries usually levy import duties for the following objectives **EXCEPT** to:
- (a) increase the volume of international trade.
 - (b) control dumping.
 - (c) protect domestic infant industries.
 - (d) raise government revenue.
- (xvi) The original value of a currency is 1£= Shs 2,800. If the currency is devalued by 25%, the new exchange rate becomes 1£ = Shs:
- (a) 3,000
 - (b) 2,100
 - (c) 3,500
 - (d) 2,700.
- (xvii)planning occurs when the central authority formulates the plans, fixes objectives and priorities.
- (a) Centralized
 - (b) Indicative
 - (c) Partial
 - (d) Sectoral.
- (xviii) The purchasing power of money can best be shown by:
- (a) prices of goods and services.
 - (b) the volume of imports.
 - (c) the price index numbers.
 - (d) the volume of exports.

- (xix) Which of the following is **NOT** a principle of taxation?
- (a) Neutrality.
 - (b) Equity.
 - (c) Regressiveness.
 - (d) Convenience.
- (xx) When the government finances its expenditure by borrowing from the central bank, the practice is known as:
- (a) taxation financing.
 - (b) debit financing.
 - (c) deficit financing.
 - (d) inflationary financing.

SECTION B

Question 2

- (a) Outline **four** advantages of resale price maintenance in an economy. (4 marks)
 - (b) Explain **four** arguments in favour of setting a minimum legislated price. (8 marks)
 - (c) Give **eight** effects of a maximum legislated price in an economy. (8 marks)
- (Total 20 marks)**

Question 3

- (a) Distinguish between specialization and division of labour. (4 marks)
 - (b) Give **four** forms of specialisation that can exist in an economy. (4 marks)
 - (c) Explain **six** demerits of specialization in an economy. (12 marks)
- (Total 20 marks)**

Question 4

- (a) Define the following terms as used in national income:
 - (i) Value added (2 marks)
 - (ii) Inventories (2 marks)
 - (iii) Double counting (2 marks)
 - (iv) Work in progress (2 marks)
- (b) Explain **six** reasons for compiling national income statistics in Uganda. (12 marks)

(Total 20 marks)

Question 5

- (a) Give **six** qualities of good money.
(6 marks)
 - (b) Outline **four** effects of an increase in money supply in an economy.
(4 marks)
 - (c) Explain **five** functions of the securities exchange market in Uganda.
(10 marks)
- (Total 20 marks)**

Question 6

- (a) Distinguish between managed exchange rate and pegged exchange rate.
(4 marks)
 - (b) Give **four** advantages of a managed exchange rate.
(4 marks)
 - (c) Explain **six** factors that determine the exchange rate in a money market.
(12 marks)
- (Total 20 marks)**

Question 7

- (a) Distinguish between a balanced budget and a surplus budget.
(4 marks)
 - (b) Outline **six** effects of a surplus budget in an economy.
(6 marks)
 - (c) Explain **five** roles of a national budget in a country's development process.
(10 marks)
- (Total 20 marks)**