

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

ATC(U) EXAMINATIONS

LEVEL TWO

ECONOMICS – PAPER 7

TUESDAY, 14 JUNE 2011

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 multiple-choice 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) Price discrimination is the act of:
- (a) a monopolist charging different prices for similar products to different groups of consumers.
 - (b) a monopolistically competitive firm selling similar products to the same group of people.
 - (c) the government setting a price above the equilibrium price.
 - (d) the government setting a price below the equilibrium price to protect the consumers from exploitation by the producer.
- (ii) Which of the following statements is **NOT** correct?
- (a) Gross Domestic Product is the total money value of final goods and services produced within the territorial boundaries of a country during a specified period of time usually one year.
 - (b) Net Domestic Product is the total money value of final goods and services produced within the territorial boundaries of a country during a specified period of time, usually one year, less depreciation.
 - (c) Gross National Product is the total money value of final goods and services produced within the territories of a country in a given period of time usually one year.
 - (d) Gross Domestic Product minus/less Depreciation = Net Domestic Product.
- (iii) Which of the following is **NOT** a feature of the informal sector?
- (a) It is dominated by small scale operations.
 - (b) It produces for the export market.
 - (c) It uses mainly simple production techniques.
 - (d) It mainly uses local resources.
- (iv) Value of money refers to the:
- (a) purchasing power of a unit of money.
 - (b) amount of money in circulation.
 - (c) speed at which money changes hands.
 - (d) Government policy of devaluation.

- (v) Absolute advantage is where:
- (a) given two countries producing two commodities with a given amount of resources, one country can produce one commodity more cheaply.
 - (b) given two countries and two commodities with a given amount of resources, one country can produce both commodities more cheaply than the other.
 - (c) there are more than two countries engaged in production of similar goods.
 - (d) there is full employment of resources in both countries.
- (vi) In monopoly:
- (a) the demand curve is perfectly inelastic.
 - (b) profit maximization is attained where marginal cost = average revenue.
 - (c) the firm earns normal profits in the long run.
 - (d) the demand curve is inelastic.
- (vii) Which of the following is true about direct taxes?
- (a) The incidence of the tax rests on the taxpayer concerned.
 - (b) They are levied on goods and services.
 - (c) The impact is felt by the government.
 - (d) The person who pays the tax can shift it to another person in terms of high price.
- (viii) A regressive tax is one where the tax rate:
- (a) rises as income increases.
 - (b) decreases as income decreases.
 - (c) falls as income increases.
 - (d) is the same for all income groups.
- (ix) Which of the following is **NOT** used by trade unions to obtain a wage increment?
- (a) Go slow.
 - (b) Court action.
 - (c) Bribing management.
 - (d) Industrial arbitration.

- (x) Which of the following is **NOT** an objective of a monetary policy?
 - (a) Ensuring price stability.
 - (b) Influencing balance of payments position.
 - (c) Encouraging inflation.
 - (d) Influencing the rate of economic growth.
- (xi) Consumer sovereignty means that consumers can:
 - (a) satisfy all their needs.
 - (b) form economic pressure groups.
 - (c) outnumber producers in most markets.
 - (d) influence the volume of output of different goods.
- (xii) Which of the following best defines derived demand?
 - (a) Wants backed-up by the ability to pay for them.
 - (b) Demand arising out of the joint use of two goods.
 - (c) Demand for goods that are close substitutes.
 - (d) Demand for factors of production arising from the nature of demand for the final good.
- (xiii) Which of the following sources of finance is unlikely to be available to a small firm?
 - (a) Selling shares to the general public.
 - (b) Borrowing from a bank.
 - (c) Ploughing back past profits.
 - (d) Fundraising from friends.
- (xiv) Unemployment caused by the general low level of aggregate demand is called:
 - (a) Keynesian.
 - (b) structural.
 - (c) frictional.
 - (d) residual.
- (xv) A giffen good is one whose demand
 - (a) increases as its price rises.
 - (b) decreases as income rises.
 - (c) increases as its price falls.
 - (d) decreases as its price falls.

- (xvi) A quantitative increase in the real output of a country refers to:
- (a) economic development.
 - (b) economic growth.
 - (c) modernization.
 - (d) liberalization.
- (xvii) Which of the following is **NOT** an invisible item of trade?
- (a) Insurance services.
 - (b) Importing machinery.
 - (c) Services of a foreign consultant.
 - (d) Shipping services.
- (xviii) Dead weight debts refer to debts that:
- (a) increase every year.
 - (b) are very heavy.
 - (c) have accumulated from past debts.
 - (d) are not covered by any real asset.
- (xix) Which of the following may not cause a balance of payments surplus?
- (a) An increase in the price of exports.
 - (b) A fall in prices of imports.
 - (c) A fall in prices of exports.
 - (d) An improvement in quality of exports.
- (xx) Choice arises out of:
- (a) excess demand.
 - (b) opportunity cost.
 - (c) scarcity.
 - (d) scale of preference.

SECTION B

Question 2

- (a) Distinguish between 'capital formation' and 'capital appreciation'.
(4 marks)
- (b) Explain **eight** factors that affect the level of capital accumulation in most developing countries.
(16 marks)
(Total 20 marks)

Question 3

- (a) Define the following terms:
(i) Increase in supply.
(2 marks)
(ii) Increase in quantity supplied.
(2 marks)
- (b) Explain factors that lead to a decrease in supply of a commodity.
(16 marks)
(Total 20 marks)

Question 4

- (a) What is meant by the term 'private sector'?
(2 marks)
- (b) Give **eight** problems faced by the private sector in your country.
(10 marks)
- (c) Suggest **four** measures that should be taken to promote the private sector in your country.
(8 marks)
(Total 20 marks)

Question 5

- (a) Define the following terms:
(i) Cost of living.
(2 marks)
(ii) Standard of living.
(2 marks)
- (b) Explain **eight** factors that influence the people's standard of living.
(16 marks)
(Total 20 marks)

Question 6

- (a) Define the following:
- (i) cost-push inflation. (2 marks)
 - (ii) demand-pull inflation. (2 marks)
 - (iii) structural inflation. (2 marks)
- (b) Give **seven** reasons for the persistent inflation in Uganda. (14 marks)
- (Total 20 marks)**

Question 7

- (a) What is meant by the term 'monetary policy'? (2 marks)
- (b) Explain **six** tools of the monetary policy. (6 marks)
- (b) Give **six** limitations to the successful implementation of the monetary policy in Uganda. (12 marks)
- (Total 20 marks)**