

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

THURSDAY, 16 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 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.

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SECTION A**Question 1**

- (i) Which of the following will lead to an outward shift of the production possibility frontier?
- (a) Increase in capital outflow.
 - (b) Improvement in technology.
 - (c) Increase in production
 - (d) Increase in population.
- (ii) Composite demand is demand for a good:
- (a) with a close substitute.
 - (b) which has several uses.
 - (c) which has inelastic demand.
 - (d) with a high rate of consumption.
- (iii) The reward for capital as a factor of production is:
- (a) income.
 - (b) rent.
 - (c) interest.
 - (d) profit.
- (iv) A deflationary gap is the situation where:
- (a) aggregate demand is equal to aggregate supply at full employment.
 - (b) total output is equal to total expenditure at full employment.
 - (c) aggregate demand is greater than aggregate supply at full employment.
 - (d) aggregate demand is less than aggregate supply at full employment.
- (v) Which of the following is **NOT** a function of money?
- (a) Acceptability.
 - (b) Medium of exchange.
 - (c) Measure of value.
 - (d) Standard for deferred payment.
- (vi) Which of the following is **NOT** a limitation to credit creation?
- (a) Political stability.
 - (b) Liquidity preference.
 - (c) High interest rates.
 - (d) Poverty.

- (vii) Using the monetary tool of selective credit control, the central bank:
- (a) sells treasury bills to the public.
 - (b) identifies specific sectors to be given loans.
 - (c) increases interest rates on loans.
 - (d) lends money to commercial banks.
- (viii) Cost-push inflation arises due to:
- (a) scarcity of goods and services.
 - (b) excessive demand for goods and services.
 - (c) increase in costs of production.
 - (d) increase in supply of money.
- (ix) In a piece rate system of wage payment, employees are paid according to:
- (a) their qualifications.
 - (b) their level of experience.
 - (c) the time taken to do the work.
 - (d) the amount of work done.
- (x) Involuntary unemployment is a situation where:
- (a) people are willing to work but jobs are not available.
 - (b) jobs are available but people are not willing to work.
 - (c) the rate of population growth exceeds the rate of job creation.
 - (d) people become unemployed due to technological progress.
- (xi) Given 128 as a country's export value index and 132 as its import value index, calculate the terms of trade for the country.
- (a) 103.12
 - (b) 96.96
 - (c) 260
 - (d) 300
- (xii) The strategy of economic growth involves developing all the sectors at the same time.
- (a) unbalanced growth
 - (b) big push
 - (c) take-off
 - (d) balanced growth

- (xiii) Which of the following is **NOT** a condition for effective planning?
- (a) Economic stability.
 - (b) Availability of resources.
 - (c) Competition.
 - (d) Political stability.
- (xiv) The ability of a country to raise the expected tax revenue without causing negative social, economic and political effects is called:
- (a) taxable income.
 - (b) tax income.
 - (c) tax liability.
 - (d) taxable capacity.
- (xv) Which of the following best describes Uganda's economy?
- (a) Dual economy.
 - (b) Closed economy.
 - (c) Industrialised economy.
 - (d) Independent economy.
- (xvi) A change in supply is caused by the following **EXCEPT** change in:
- (a) the level of technology.
 - (b) price of the commodity.
 - (c) climatic factors.
 - (d) goals of the firm.
- (xvii) The term 'value of money' refers to the:
- (a) general level of prices.
 - (b) demand for money.
 - (c) purchasing power of money.
 - (d) supply of money.
- (xviii) Trade unions are likely to achieve their objectives when:
- (a) labour is mainly unskilled.
 - (b) inflation rate is low.
 - (c) there is full employment.
 - (d) there is a high rate of unemployment.

- (xix) The following are costs of economic growth **EXCEPT**:
- (a) rural-urban migration.
 - (b) pollution.
 - (c) unemployment.
 - (d) industrialisation.
- (xx) The incidence of a tax is entirely borne by the producer when demand for the commodity is:
- (a) perfectly elastic.
 - (b) perfectly inelastic.
 - (c) inelastic.
 - (d) elastic.

SECTION B

Question 2

- (a) Distinguish between:
- (i) 'Micro-economics' and 'macro-economics'. (4 marks)
 - (ii) 'Normative economics' and 'positive economics'. (4 marks)
- (b) Give **three**:
- (i) advantages of a centrally planned economy. (6 marks)
 - (ii) disadvantages of a centrally planned economy. (6 marks)
- (Total 20 marks)**

Question 3

- (a) Define the terms:
- (i) Average revenue. (2 marks)
 - (ii) Marginal revenue. (2 marks)
 - (iii) Normal profits. (2 marks)
 - (iv) Supernormal profits. (2 marks)
- (b) Explain **six** functions of profits in an economy. (12 marks)
- (Total 20 marks)**

Question 4

- (a) Distinguish between 'Gross Domestic Product' and 'Gross National Product'.
(4 marks)
 - (b) Explain **eight** factors which determine the level of national income in an economy.
(16 marks)
- (Total 20 marks)

Question 5

- (a) Define 'non-banking financial intermediary'.
(2 marks)
 - (b) Outline **four** liabilities of a commercial bank.
(4 marks)
 - (c) Explain **seven** functions of commercial banks in your country.
(14 marks)
- (Total 20 marks)

Question 6

- (a) Define the term 'economic integration'.
(2 marks)
 - (b) Explain **four** conditions necessary for the success of economic integration.
(4 marks)
 - (c) Give **seven** benefits of the EAC Common Market to Uganda's economy.
(14 marks)
- (Total 20 marks)

Question 7

- (a) Define the term 'privatisation'.
(2 marks)
 - (b) Explain **six** reasons for privatisation.
(6 marks)
 - (c) Give **six** problems encountered in the privatization process in your country.
(12 marks)
- (Total 20 marks)