

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

A Committee of the Council of ICPAU

CPA(U) EXAMINATIONS

LEVEL ONE

ECONOMIC ENVIRONMENT – PAPER 2

WEDNESDAY, 20 JUNE 2012

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. This examination contains Sections **A** and **B**.
3. Section **A** is bound separately from Sections **B**.
2. Attempt all the 20 multiple choice questions in Section **A**. Each question carries 1 mark.
4. Attempt **four** out of the **six** questions in Section B. Each question carries 20 marks.
5. Write your answer to each question in a separate answer booklet.
6. Please, read further instructions on the answer booklet, before attempting any question.

SECTION B

Attempt four of the six questions in this section.

Question 2

- (a) Define the term 'production'. (2 marks)
- (b) Explain the **three** stages of production. (6 marks)
- (c) Describe **four** factors of production. (12 marks)

(Total 20 marks)

Question 3

- (a) Distinguish between cash ratio and bank deposit multiplier. (2 marks)
- (b) Given that Bank A had an initial deposit of Shs 1,000,000 and the cash ratio is 20%. Calculate the total credit created. (4 marks)
- (c) Explain **seven** limitations of credit creation in an economy. (14 marks)

(Total 20 marks)

Question 4

- (a) Distinguish between voluntary and involuntary unemployment. (2 marks)
- (b) Explain **six** causes of voluntary unemployment. (6 marks)
- (c) Give **six** reasons why industrialization has failed to solve the unemployment problem in developing countries. (12 marks)

(Total 20 marks)

Question 5

- (a) Distinguish between balanced growth strategy and unbalanced growth strategy of economic growth. (4 marks)
- (b) Explain **five** advantages of a balanced growth strategy. (10 marks)
- (c) Explain **six** limitations of a balanced growth strategy in your country. (6 marks)

(Total 20 marks)

Question 6

- (a) What is meant by the term 'invisible exports'?
(2 marks)
 - (b) Give **four** characteristics of Uganda's imports.
(8 marks)
 - (c) Explain **five** problems faced by traders in international trade.
(10 marks)
- (Total 20 marks)**

Question 7

- (a) Distinguish between a 'tax' and a 'fee'.
(4 marks)
 - (b) With the help of a diagram, illustrate the incidence of a tax when demand for a commodity is inelastic.
(4 marks)
 - (c) Explain **six** characteristics of a good tax.
(12 marks)
- (Total 20 marks)**