

ECONOMICS PAPER 1 ANSWERS



1. (a)(i) Opportunity cost refers to the second best alternative foregone when choice is made.
 (ii) Uses of opportunity cost
- It guides producers in resource allocation/making production decisions.
 - It helps consumers in making consumption decisions.
 - It is used in pricing factors of production.
 - It is used for specialisation in international trade.
 - It is a basis for economic planning.
 - It helps workers to make employment decisions.

- (b)(i) A mixed economy is one where resources are owned, allocated and distributed by both the state and the private individuals (market forces of demand and supply).

while

A laissez-faire economy is one where resources are owned, allocated and distributed by private individuals through market forces of demand and supply with little or no government intervention.

- (ii) The following qualify Uganda to be a mixed economy. In Uganda;

- Resource ownership is both by the state and private individuals.
- Economic decisions are made by both the government and private individuals.
- Resource allocation is by both the market forces of demand and supply and the central planning authority.
- There is coexistence of both the private and public sector.
- There is existence of indicative planning.
- There is regulated competition in production and consumption.

- (c) Cross Elasticity of Demand

$$= \frac{\text{percentage change in quantity X}}{\text{percentage change in price of Y}}$$

$$\begin{aligned} \text{Percentage change in price} &= \frac{\text{change in price}}{\text{original price}} \times 100 \\ &= \frac{160,000 - 200,000}{200,000} \times 100 \\ &= -20\% \end{aligned}$$

$$\text{Cross Elasticity of Demand} = \frac{50}{20} = 2.5$$

- (ii) Since CED is positive, the two commodities are substitutes/competitively demanded.
 (d) (i) Quasi rent refers to the extra payment to a factor of production over and above its supply price/transfer earnings (what is required to keep in its present use) when the factor of production has inelastic supply in the short run and elastic supply in the long run.

While

Economic rent refers to the extra payment to a factor of production over and above its supply price/transfer earnings (what is required to keep in its current/present use).

- (ii) Why all payment to land is referred to as economic rent.

- The supply of land is fixed (perfectly inelastic).
- Land is a free gift of nature with no supply price.

- (e)(i) Horizontal occupational mobility of labour is where the worker moves from one job/task to another without involving change of class/status/rank/grade e.g a teacher moving from one school to another, but remaining a classroom teacher.

while

Vertical occupational mobility of labour is where a worker moves from one job/task to another involving an improvement in class/status/rank/grade e.g a classroom teacher to a headteacher.

- (ii) Hindrances to occupational mobility of labour

- Long training period for alternative jobs.
- High cost of training for other jobs.
- High degree of specialisation of labour in the current job.
- Limited natural ability of a worker.
- Stringent requirement for alternative jobs.
- Limited information about alternative jobs.
- Barriers by trade unions
- Old age of the worker.
- High discrimination in the labour market.
- High prospects of promotion in the current job.

ECONOMICS TEACHERS



PAUL KALINDI,
UGANDA MARTYRS SS NAMUGONGO



RONALD JAGGWE,
TRINITY COLLEGE, NABBINGO

- High wages in the current job/low wages in alternative jobs.

SECTION B

- 2 (a) Causes of price instabilities of agricultural products in an economy;
- Long gestation period of agricultural products.
 - Bulkiness of agricultural products.
 - Changes in costs of production.
 - Perishability of agricultural products.
 - Divergency between planned output and actual output of agricultural products.
 - High dependency on nature/natural factors like weather, climate, soils, which affect output levels.
 - Poor planning by farmers/cobweb effect.
 - Low income elasticity of demand for agricultural products.
 - Low price elasticity of demand for agricultural products.
 - High competition from synthetic/artificial fibres.
 - Introduction of raw material-saving technology by major buyers/developed countries.
 - Weak bargaining position of LDCs in the world market/ external determination of prices.
 - Poor storage facilities/poor surplus disposal by farmers.

NOTE:

Instability of prices/price fluctuation is an increase or decrease in prices. Therefore, while explaining DO NOT use the words high and low, but instead, use increase and decrease.

- (b) Implications of price instabilities of agricultural products. price instabilities;
- Lead to fluctuation in farmers' incomes.
 - Lead to fluctuation in government revenue.
 - Lead to fluctuation/instability in export earnings (for agricultural exports)
 - Make government planning based on earnings from agricultural sector difficult.
 - It discourages farmers.
 - Lead to rural urban migration with its negative consequences.
 - Lead to instability/fluctuation in exchange rates.
 - Lead to instabilities/fluctuation in balance of payments.
 - Lead to instabilities/fluctuation in terms of trade.
 - Make investment in agriculture very uncertain.
 - Lead to seasonal unemployment in the sector.
 - Worsen income inequalities.

NOTE:

Present answers in the present simple tense and maintain the element of "change" in your points since price fluctuation is a change. i.e. DO NOT WRITE; price instabilities lead to poor B.O.P, but write price instabilities lead to unstable B.O.P.

- 3 (a) The role of capital in the development of an economy;
- Increases productivity and efficiency of other factors of production.
 - Facilitates optimum use/employment of resources.
 - Facilitates research in an economy.

- Promotes specialisation in the production process.
- Capital is an engine of economic reforms e.g technological transformation.
- Facilitates trade and exchange, hence encouraging commercial production.
- Facilitates further capital accumulation and investment.
- Leads to increased output/economic growth/GDP.
- Facilitates the industrialisation process.
- Improves the quality of commodities produced.
- Improves labour skills
- Creates/increases employment opportunities.
- Promotes technological development and technological transfer.
- Reduces economic dependency.

NOTE

For questions on "role", write only positive role only if the question says explain or what is the role, otherwise, give both positive and negative.

- (b) Factors that influence the level of capital accumulation in an economy
- Level of income.
 - Level of savings.
 - Political climate.
 - Population growth rate.
 - Level of development of infrastructure.
 - Level of entrepreneurship.
 - The rate of inflation/the general price level.
 - The level of development of infrastructure.
 - Size of the market.
 - Level of availability of investment incentives.
 - The degree of accountability/the level of corruption.
 - The level of capital inflow/capital outflow.
 - The size of existing capital stock.
 - The time preference/consumption habits.
 - The demonstration effect.
 - Degree of conservatism/cultural factors.
 - Level of interest on loans/savings.
 - The level of monetisation in the economy/ size of the subsistence sector.
 - The land tenure system.
 - The level of technology.

NOTE:

The question is neutral/unbiased, so should the answers be. It is important to explain adequately both sides clearly, showing how the point leads to high or low capital accumulation.

- 4 (a) GNP at factor cost refers to the money value of all final goods and services produced by the nationals of a country both within and abroad in a given period of time valued at prices of factors of production.
While
 GNP at market price refers to the money value of all final goods and services produced by the nationals of a country both within and abroad in a given period of time valued at current prices of final goods and services in the market.
- (b) Reasons why a higher per capita income figures in 2020 being greater than that of 2010 may not necessarily imply better standard of living in 2020 than in 2010.
- It ignores the change in the boundary of production over time.
 - It does not take into account the changes in the price level/rate of inflation in a country overtime.
 - It ignores the changes in the level of accuracy in data collection overtime.
 - It leaves out the changes in the size of the subsistence sector overtime.
 - It ignores the changes in income distribution in a country overtime.
 - It does not consider the changes in the political climate prevailing in a country overtime.
 - It ignores the changes in the leisure time foregone in a country overtime.
 - It ignores the changes in the level of unemployment in a country overtime.

Turn to page xx

- It ignores the changes in the level of taxation in a country overtime.
- It ignores the changes in the quality of commodities in a country overtime.
- It ignores the changes in the nature of goods produced in a country overtime.
- It ignores the changes in the social costs e.g pollution in a country overtime.
- It ignores the changes in the pattern of government expenditure in a country overtime.
- It ignores the changes in the degree of freedom in a country overtime.
- It ignores the changes in the working conditions at workplaces overtime.
- It does not put the changes in the tastes and preferences in a country overtime into consideration.

NOTE:

Since the question requires a comparison between two years, use the word change to reflect an element of shift in time. In the explanation, show a contradictory scenario, where per capita income may be high when standard of living is low or the reverse.

- 5(a) Determinants of the population growth rate of a country
- Early marriages.
 - Reduced civil wars and natural calamities.
 - Cultural/ traditional tendencies that encourage large families. For example, children regarded as a source of pride and wealth.
 - High polygamy rate.
 - High poverty levels.
 - High levels of illiteracy and inferiority complex among women.
 - Limited family planning programmes, especially in rural areas.
 - Improved healthcare, leading to reduction in death rates.
 - High rate of immigration and low rate of emigration.
 - High fertility rates among women.
 - Low cost of raising children.
- (b) Why there is need to control (reasons for controlling) population growth rate.
- To reduce the dependency burden.
 - To reduce the level of unemployment.
 - To reduce income inequality/promote equitable income distribution.
 - To reduce government expenditure.
 - To reduce social cost/environmental degradation.
 - To ease government planning for the population.
 - To reduce pressure on the existing infrastructure.
 - To reduce rural urban migration and its associated evils.
 - To reduce external resource dependency.
 - To minimise brain drain.
 - To improve labour productivity.
 - To improve the country's balance of payment position.

- To reduce crime and immorality.

NOTE:

- For reasons in form of objectives, state your answers using words like "To, in order to and so as to"
- In the explanation, show how controlling population growth brings about the particular point mentioned. DO NOT explain your points as impact of high population growth rate.

- 6 (a) Tools used in management of the monetary policy (tools of monetary policy)
- Open Market Operation (O.M.O)
 - Legal Reserve Requirements.
 - Bank Rate.
 - Cash Ratio.
 - Special Deposit.
 - Margin Requirement.
 - Currency Devaluation.
 - Moral Suasion.
 - Rationing of Credit.
 - Currency Reforms.
- (b) Limitations to the effective management of the monetary policy in an economy;
- Excessive liquidity among commercial banks.
 - Domination of foreign owned commercial banks which are not directly controlled by the central bank (especially in terms of liquidity).
 - High liquidity preference among the public.
 - Ignorance of the public about the services offered by commercial banks.
 - Unfavourable external influence such as IMF conditionalities that are sometimes not in line with the monetary policy objectives.
 - Underdeveloped money and capital markets.
 - Rampant corruption and bribery by some commercial banks in the implementation of some tools.
 - Government interference in the activities of the Central Bank.
 - Poor distribution of commercial banks.
 - High levels of inflation in the country.
 - Conflicting government objectives.
- 7 (a) Role of taxes in the development of a country
- Positive role**
- They help in raising government revenue.
 - Taxes on imports help to protect the local infant/ domestic industries.
 - Taxes reduce income inequality i.e. progressive taxes.
 - They promote hard work among people.

- They help in controlling monopoly and its associated evils.
- They help in influencing proper resource allocation.
- They help in controlling inflation (direct taxes).
- They help in discouraging consumption of demerit goods.
- They can be used to improve the country's B.O.P position.
- They help to discourage dumping.
- They help to check on imported inflation (indirect taxes).
- They help to create more employment opportunities (e.g. tax holidays)
- They help to promote balanced regional growth.

Negative role

- They discourage savings.
- They discourage investment.
- They compromise the people's welfare.
- They discourage effort and initiative.
- They encourage illegal activities, such as smuggling.
- They create resentment of the government.
- Regressive taxes widen income inequality gap.
- They reduce the volume and benefits of trade.
- They lead to diversion of resources from highly taxed productive to non or less taxed non-productive ventures (resource misallocation)
- Indirect taxes are inflationary/may lead to inflation.
- Lead to increased cost of production.
- They breed inefficiency in the protected firms.

- (b) The following measures can be undertaken to improve tax collections:

- Reduce/eliminate corruption/corruption can/should or may be reduced.
- Sensitise masses on the role of taxes.
- Develop a taxpayer-friendly system of tax collection.
- Develop the infrastructure, especially roads to reduce the cost of collecting taxes.
- Use skilled, qualified and trained personnel to collect taxes.
- Improve the implementation of tax collection.
- Ensure political stability in the country.
- Expand the industrial sector.
- The government should effectively allocate and use the tax revenue to motivate the public to pay tax.
- Put in place the necessary facilities and equipment used in collection and assessment of taxes. For example, computers and other logistics.
- Improve the implementation of tax laws.

NOTE:

Mindful the tense used in the question. For a suggestive/ speculative tense like the one used above, use suggestive language. For example, expand the industrial sector or the industrial sector should/can/may be expanded. Maintain the same tense, not only in point statement, but in the explanation as well.



For enquiries,
send an email to
learners@newvision.co.ug

ECONOMICS PAPER TWO REVISION QUESTIONS

Section B

- 1 (a) (i) Define the term statutory monopoly.
- (ii) Give three demerits of statutory monopoly in Uganda.
- (b) Define the term consumption multiplier.
- (ii) Given that the country's initial national income is shs.849,000 billion and the level consumption expenditure increased from shs.352,000 billion to shs.512,000 billion. Calculate the final income level, assuming that the marginal propensity to consume is 80%.
- (c) (i) Distinguish between economic growth and economic development.
- (ii) State any two indicators of

development economic development in Uganda.

- (d) (i) Distinguish between cost push and structural inflation.
- (ii) Give two causes of structural push inflation in Uganda.
- (e) (i) Distinguish between barter terms of trade and income terms of trade.
- (ii) Give any two causes of unfavourable terms of trade in Uganda.

Section B

2. (a) What are the demerits of relying on the price mechanism in Uganda?

- (b) Discuss the measures that the government has taken to control the shortcomings of the price mechanism in Uganda.
3. (a) Explain why the government of Uganda seeks foreign aid from other countries.
- (b) Explain the costs of foreign aid to Uganda.
4. (a) Describe the Malthusian theory of population.
- (b) To what extent is the Malthusian theory of population relevant to the current coronavirus disease pandemic in Uganda?
5. (a) Account for the existence of income inequality in Uganda.

- (b) Explain the measures being taken to reduce income inequality in Uganda.

6. (a) What are the features of the informal sector in Uganda?
- (b) Assess the impact of the expansion of the informal sector in Uganda.
7. (a) What are the instruments of protectionism used in Uganda?
- (b) Explain the arguments for protectionism currently practised in Uganda.
8. (a) What is meant by the term nationalisation?
- (b) Account for the reluctance of government to nationalise the private enterprises in Uganda.