

MARKING GUIDE
UACE MOCK 2014
ECONOMICS P220/1

SECTION A

1. a) i) Derived demand is one which is not meant to give direct satisfaction to consumers but simply aimed at acquiring a commodity to be used in production of another; e.g. demand for factors for production; **(1 mark)**

While

Aggregate demand is the total planned expenditure of an economy over time or the total demand for goods by all sectors of the economy during a given time period. **(1 mark)**

- ii) Examples of commodity whose demand is derived:

- Land
- Labour
- Capital
- Intermediate product.

(2x1 = 2 marks)

- b) i) Cash ratio is the proportion of commercial bank deposit that is kept in vault cash form and not lent out or used by the commercial bank; **(1 mark)**

While

Liquidity ratio is the proportion of commercial bank liability (deposits) that is kept in cash and near cash form. **(1 mark)**

- ii) Initial deposit = Total new deposit ÷ Bank multiplier (1/cash ratio). **(1 mk)**
= 100,000,000 ÷ 10 **(½ mark)**
= **Sh.10,000,000** **(½ mark)**

- c) i) Leakages from the circular flow of income and expenditure are the elements that tend to reduce income level in the circular flow/ economy. **(1 mark)**

- ii) Withdrawals from the circular flow include the following:

- savings
- Taxation
- Imports
- Retained earnings and undistributed profits

(3x1 = 3 marks)

- d) i) Technology transfer is the movement of production technique and associated expertise from one country to another, **(1 mark)**

While

Technology development is the initiation and hence the improvement of existing production method - normally through research. **(1 mark)**

ii) Hindrances to technology transfer include the following:

- Lack of appropriate skills
- Limited capital necessary to import it
- Patent right restrictions
- Limited research facility
- Conservatism of some society
- Under developed infrastructure
- Fear of causing technological unemployment
- Small domestic market

(4x½ = 2 marks)

e) i) Economic growth is the persistent quantitative increase in volume of goods and services (productive capacity) in an economy over time. It is the persistent increase in a country's national income over time. **(1 mark)**

ii) Features of the second Rostowian (transitional) growth stage include the following:

- Dualism
- Dominance of (subsistence) agriculture
- Low rate of savings and investment
- Use of poor technology
- High population growth rates
- Political immaturity
- Under developed infrastructure
- High rate of illiteracy
- Emergence of entrepreneurial class
- Economic dependence
- Low level of industrialization

(6x½ = 3marks)

SECTION B

2. a) Features of the manufacturing sector include the following:

- Existence of processing firms
- Assembling of consumer durables
- Existence of competition among the firms constituting the industry
- Aim of firms in the sector being profit maximization
- Existence of many firms and many buyers in the sector
- Product differentiation is yet another feature of the sector
- Production of both consumer and capital goods
- Freedom of entry and exit of firms
- Use of persuasive advertising and other forms of sales promotion

(8x1 = 8 marks)

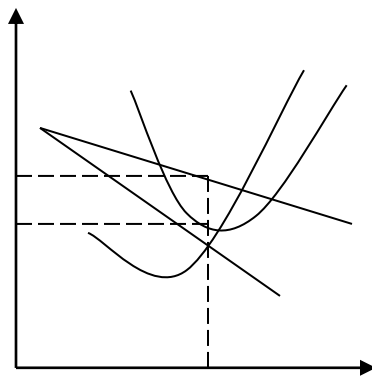
b) In the short run a firm under perfect competition attains equilibrium at a point where $MC = MR$. **(2 marks)**

At the equilibrium output the firm sets price at a point where the output line (amount supplied) meets the AR or demand curve. **(2 marks)**

A supernormal profit is realized when AR is greater than AC at equilibrium output and a short run loss is incurred when AR is less than AC at equilibrium output.

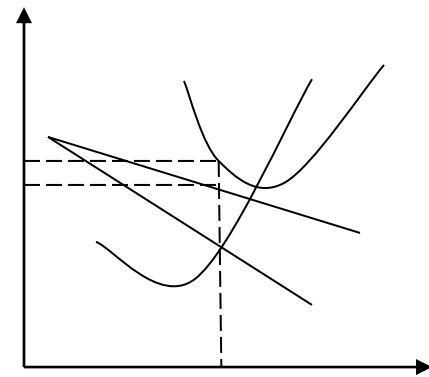
(2x2 = 4 marks)

Below are illustrations of the short run equilibrium of monopolistic competitive firm when making supernormal profits and when incurring losses.



Area marked PCAB represents Short – run abnormal profits

(2 marks)



Area marked PMNC represents Short – run losses

(2 marks)

3. a) Methods used by an economy in determining its national income include:

Income approach; and this involves summing up of incomes from productive activities by persons and enterprises during a given time period. i.e. it is got by adding up factor payments. **(2 marks)**

Output approach that involves adding up total value added to output at each stage of the production process. **(2 marks)**

Expenditure approach; which, involves adding up expenditure of households, firms, government and external sector of an economy on goods and services during a year. i.e. $C + I + G + (X - M)$. **(2 marks)**

b) Factors that are responsible for the slow growth of national output of an economy include the following:

- Limited skills in production and management
- Limited entrepreneurship abilities
- Small market
- Limited capital stock
- Poor technology
- Under developed infrastructure
- Poor investment climate
- Limited productive resources
- Poor attitude to work
- Dependence on foreign sources of goods
- Political instability that tends to disrupt production

(7x2 = 14 marks)

4. a) A craft union is an association of workers with similar skills across the industrial structure irrespective of the industry or company in which the worker is employed; **(2 marks)**

While

Industrial union is an association of all workers in a particular industry regardless of type of job done by the worker. **(2 marks)**

b) Bases for wage claims by trade union include the following:

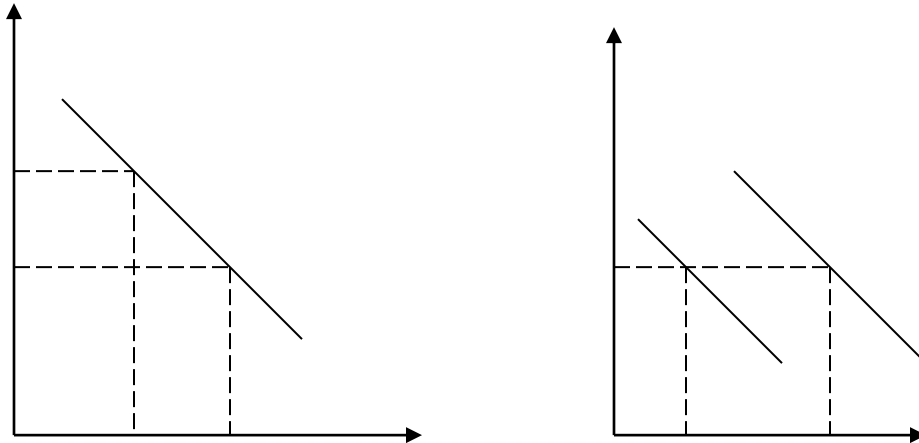
- Productivity argument
- Profitability argument
- Comparative wage argument
- Cost of living argument
- When minimum wage legislated by government is not paid to workers
- A situation whereby employers are paying wages agreed upon earlier on
- Members of the trade union have acquired more skills
- Work load has increased without corresponding increase in pay
- The jobs have become more risky
- The product of the industry has inelastic demand
- Workers have discovered that their wages make up small proportion of total cost of production of the firm. **(8x2 = 16 marks)**

5. a) An increase in demand is a situation whereby more of a commodity is demanded at constant price and it is illustrated by a shift of the entire demand curve to the right; **(1 mark)**

While

An increase in quantity demanded is a situation whereby more quantity of a product is demanded because of a decrease in the price of the commodity, ceteris paribus. It is illustrated by movement downwards along a given demand curve. **(1 mark)**

Below are illustrations showing increase in quantity demanded and an increase in demand:



AB represents increase in quantity demanded and JK represents an increase in demand.

(1 mark for @ correct diagram = 2 marks)

b) Circumstances under which consumers buy more of a commodity whose price has not changed include:

- As a result of increase in consumer's income
- Increase in prices of substitutes to the commodity
- A decrease in prices of complements to the commodity
- Consumers are being subsidized by government
- Reduced taxation on consumers
- Increase in the size of the household
- Improved income distribution among the consumers – i.e. income distribution has become more equitable
- The right season for the commodity or right period for the use of the commodity
- Increase in preference for the commodity
- There is expectation of future increase in price of the commodity

(8x2 = 16 marks)

6. a) Causes of budgetary deficits in an economy include the following:
- Low tax revenue due to poor tax administration
 - High rate of corruption and most especially the misappropriation of public funds
 - High population growth rate and hence the problem of dependency
 - Heavy borrowing and hence the persistent problem of debt servicing
 - High rate of capital outflows
 - Heavy expenditure on unproductive activities
 - Political instability that tends to disrupt production and income generation
 - Problem of natural hazards that affect agricultural productivity and the returns from the sector

- Persistent BOP problems
- Involvement in ambitious projects which are never accomplished
- Low tax base and or limited taxable capacity

(10x1 = 10 marks)

b) Measures that could be used to offset deficits in a country's budget include:

- Diversification of tax sources to increase revenue collection
- Solicit donations and grants
- Government could carry out deficit financing
- Government could borrow both internally and externally
- Agricultural modernization in the case of agro – based economies could help to raise the required funding to close the budgetary gap
- Ensure political stability
- Retrenchment – reduction in excessive expenditure by government
- Privatize so as to cut down excessive spending while at the same time increase revenue collection
- Industrialization strategy could be undertaken
- Infrastructural development to boost production

(10x1 = 10 marks)

7. a) Sequencing as used in planning is the plan strategy that emphasizes development of a sector or project at a time and making externalities from the prioritized project trickle down to other sectors of the economy; **(2 marks)**

While

Compatibility is a planning strategy that emphasizes development to be geared towards interrelated projects so as to exploit all possible linkages in times of plan implementation. **(2 marks)**

b) Limitations to successful implementation of development plans are as follows:

- Limited capital resources
- Inadequate reliable/ appropriate data
- Limited skilled manpower to implement the plans
- Opposition from section of the public
- Political interference
- Some plans are too ambitious
- Reliance on foreign aid, which may not come by
- Natural calamities that affect implementation of plans in the primary sector
- Poor infrastructure that disrupts coordination of plans at implementation stage

(8x2 = 16 marks)

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MOCK EXAM 2014
ECONOMICS P220/2

SECTION A

1. a) i) An optimum firm is one that produces the best output at lowest per unit cost possible. It produces at the lowest point of the AC curve. **(1 mark)**

ii) Reasons for poor performance of firms in Uganda include:

- Limited capital stock
- Weak entrepreneurship abilities
- Small domestic market
- Poor infrastructural facilities
- Poor investment climate
- Limited skilled manpower
- Use of poor production techniques
- Unfair government policy on investment e.g. high tax rates on firms

(3x1 = 3 marks)

b) Forms of under employment that exist in Uganda include the following:

- Labour working less than the normal working hour during a given period
- Labour doing last resort work
- Full time engagement in an activity where the marginal productivity of labour is zero or even negative
- Labour engaging full time in socially undesirable activity
- Labour engaging full time in unproductive activity
- Engagement in activity where co – operant factors are inadequate thus resulting into redundancy of labour at times during production process.
- Doing a work which is far below one's training/ skills
- Being fully employed but not wholly effective because of health threats or possibly due to poor attitude to work

(4x1 = 4 marks)

c) i) Export promotion is the deliberate attempt by government of encouraging production for export markets. **(1 mark)**

ii) Limitations to successful implementation of export promotion in Uganda are:

- Limited stock of capital
- Limited skilled manpower
- Limited entrepreneurial skills
- Inadequacy of some basic raw materials
- Reigning political instability in some parts of the country
- Limited markets for exports
- Poor infrastructure
- Poor production techniques

- Reluctance of our people to change from the traditional exports
- Low export prices

(3x1 = 3 marks)

d) (i) Trade creation exists when a member country of an economic integration buys cheaply from within the region commodities she used to import more expensively from non – member countries before formation of the regional integration;

(1mark)

While

Trade diversion is where a member country buys locally expensively commodities which were formerly imported from low cost external sources before formation of the regional trading block.

(1 mark)

b) Benefits that Uganda is likely to get by joining EACM include the following:

- Trade creation effect is possible
- Wider market for Ugandan products
- More employment opportunities are likely to be created
- Industrial development is likely to be accelerated
- More foreign investment will be attracted into the country
- Greater use of idle potentials of the economy
- Uganda's bargaining power in world trade is likely to increase due to formation of cartels and commodity agreements.
- Economic efficiency due to meaningful competition
- Temporary shortages and surpluses are reduced due to planned production
- Development of the country's infrastructural facilities
- Specialization according to comparative advantages and hence the advantages of specialization
- Stability in exchange rates as use of an East African currency is probable
- It allows Uganda to conduct research and collect information jointly with other member states at low cost
- More goods and services are availed to Ugandans.

(4x½ = 2 marks)

e) Causes of high population growth rates in Uganda are as follows:

- Limited use of family planning methods
- Early marriages
- Low levels of education; or lack of knowledge of importance of having small families
- Culture and religion – polygamy
- High fertility rates in women
- High rate of immigration
- Improving medical facilities
- Lack of proper law on number of children per family

(4x1 = 4 marks)

SECTION B

2. A) Agricultural diversification is the creation of multi – activities or a number of productive activities in the agricultural sector. **(2 marks)**

The creation of multi – activities within the sector include rearing of animals alongside growing of crops or introduction of new crops under the crop husbandry **(1 mark)**

It also involves setting up of processing plants in the agricultural sector. **(1 mark)**

b) The need for agricultural diversification in Uganda is due to the following:

- To create more employment opportunities
- To facilitate the development of the industrial sector of the economy
- To promote infrastructural development
- To facilitate income distribution in the economy
- To promote exploitation of idle resources in the economy
- To stabilize prices most especially of the agricultural products which are ever fluctuating.
- To increase and thus stabilize earnings of primary producers
- To increase export earnings
- To widen tax base
- To promote commercialization and hence reduce incidences of subsistence production
- To increase agricultural output and hence accelerate the process of economic growth.

(8x2 = 16 marks)

3. a) Poor performance of Ugandan industrial sector is attributed to the following:

- Limited capital stock
- Limited skills in industrial undertaking
- Poor technology
- Under developed infrastructure – both physical and social
- Small (domestic) market for our industrial products
- Limited entrepreneurial skills
- High propensity to import
- High rate of corruption
- Poor government policy on investment – high taxation rates
- Poor performance of complementary sector especially agriculture
- Poor land tenure system
- Lack of some basic raw materials
- Poor investment climate e.g. political instability

(10x1 = 10 marks)

- b) Policy measures that can be taken to increase the contribution of Ugandan manufacturing sector to development include:
- Offering financial assistance to small – scale industrialists
 - Undertaking research in the fields of industrial production and marketing
 - Widening of market for industrial products
 - Developing appropriate technology to suit our industrial requirements
 - Training more manpower to participate in industrial development
 - Developing basic infrastructure in the economy
 - Putting restrictions on some selected imports
 - Creation of conducive investment climate
 - Undertaking appropriate land policies to avail industrialists with land for investment
 - Can continue with privatization to attract private initiatives. **(10x1 = 10 marks)**
4. a) A taxable base is an economic entity (person's income, property, commodity) on which a tax is levied; **(2 marks)**
While
 A taxable capacity is the ability of a tax payer to pay the amount of tax levied on him and remain with sufficient income to lead his normal lifestyle. **(2 marks)**
- b) The recent increase in tax returns in Uganda is due to:
- Increase in volume of trade
 - Agricultural modernization and thus increased agricultural output
 - Rapid growth of the industrial sector
 - Tight tax administration under URA
 - Diversification of taxes
 - Increasing earnings of individuals and firms in the economy
 - Increase in employment opportunities
 - More sensitization of the public and thus reduced incidences of tax evasion and avoidance
 - Improving performance of the informal sector
- (8x2 = 16 marks)**
5. a) Non – banking financial intermediaries are institutions other than banks that provide facilities for accumulation of funds (savings) and do not create credit but bring together surplus spending units (lenders) and deficit spending units (borrowers) by making funds available to those in need. **(2 marks)**
- Examples of such institutions include:
- Insurance companies
 - Building societies
 - Housing finance Corporation
 - Investment trust
 - Post Office savings banks, etc.
- (2x1 = 2 marks)**

b) The role played by non – bank financial intermediaries include:

- Promotion of savings and hence investment
- Development of infrastructural facilities
- Creation of more employment opportunities
- Training of manpower thus promote the development of skills
- Promotion of trade/ commercial activities
- Facilitating industrial development in the country
- Sources of revenue to the government through taxation
- Facilitate monetization of the economy
- Facilitate rural transformation and development
- Provision of social devices for improved welfare
- Promotion of entrepreneurship
- Development of risky but essential ventures either directly or indirectly by offering long term loans in those areas of investment
- Attraction of foreign capital, investment and resources.

(8x2 = 16 marks)

6. a) Sliding scale as a system of wage payment is one whereby wages are fixed in accordance to prevailing cost of living such that when there is a rise in cost of living, wages are also adjusted upwards accordingly; **(2 marks)**

While

Bonus payment is the extra or additional payment given to a worker for his exceptional and more than normal contribution in the production process of a firm. It is a merit pay granted for outstanding performance and that is why it is at times called individual performance related pay. It is a payment, which is above and over the amount fixed during the time when the contract is signed and the employer effects it when he is impressed by the work of the employee. **(2 marks)**

b) Employers in Uganda prefer using the piece – rate system of wage payment under the following circumstances:

- The need to increase output
- To cut down supervision cost
- To encourage slow and lazy workers to participate more in production
- To minimize disagreement between employees and employers
- To promote creativity and innovativeness among employees
- To finish a piece of work quickly
- To help in selecting workers in times of restructuring production process
- To encourage competition among the workers
- The piece rate is preferred because many employers have problem of poor record keeping
- To promote team spirit in production process

(8x2 = 16 marks)

7. a) Causes of deficits in Uganda's BOP position is due to the following:
- Low volume of exports
 - Falling/ fluctuating prices of exports
 - High marginal propensity to import
 - High prices of imports
 - Constant borrowing and the persistent problems of debt servicing
 - Excessive expenditure by government on foreign travels and diplomatic missions
 - High rate of capital outflows
 - Discriminating policy and trade restrictions by MDCs which limit the rate at which Uganda can accumulate foreign earnings
 - High military expenditure on imports of military hardware because of political unrest
 - Prices of our exports are dictated by major buyers
 - Limited markets for exports as markets for primary products are flooded by the numerous primary producers in many developing countries.

(10x1 = 10 marks)

- b) Measures being taken by the government of Uganda to improve the country's BOP position include:

- Trade restrictions on selected imports are being taken by the government
- Imports substitution is being undertaken
- Export markets are being diversified to minimise adverse effect of relying on few export markets
- Export promotion to increase volume of exports
- Manpower development to reduce expenditure on expatriates
- Export diversification to minimize effects of commodity concentration of trade
- Depreciation of the currency is being encouraged
- Strengthening of commodity agreements of which we are signatories
- Liberalisation of the economy to increase output for both domestic and foreign markets
- Debt conversion and appeal for debt cancellation to reduce effects of debt servicing
- Barter trade is also being used by government

(10x1 = 10 marks)