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Economics paper 1 set 2 and marking guide

1. (a) Define or briefly explain what is meant by the following
 - (i) Demographic transition
It is **a model that explains population growth through historical perspective**. It states that the population will eventually stop growing when the country transitions from high birth rates and high death rates to low birth rates and low death rates, stabilizing the population.
 - (ii) Population explosion
It refers to **the rapid increase in the population of an area among human beings**. It leads to a situation where the economy is unable to cope with the increasing demand of its growing population
- (b) Give two reasons for wage difference between sexes and two reasons for difference between regions

Reasons wage difference between sexes

- Difference in talents and natural gifts
- Difference in cultures of the people
- Difference in people's ability to work
- Differences in bargaining power of an individual
- Variation in levels of skills
- Difference in expertise or responsibility
- Differences in level of education
- Discrimination
- Differences in industries or jobs worked.
- Differences in number of hour worked

Reasons wage difference between regions

- Differences in cost of living e.g. towns and rural areas
- Differences in the risks of performing jobs e.g. Dangerous, disagreeable, hazardous and risky work carry higher money wages to attract larger supply of labour
- Differences in the products e.g. area with vanillas compared with those with cotton
- Government policy on income and wages tend to favour some regions
- Employer's ability and willingness to pay are not the same in different regions
- Racial discrimination
- Presence of labour unions
- Steadiness of employment: Places with seasonal or irregular occupation pay higher wages whereas places with regular employment may low wages.

- (c) Given 95 as a country's export index unit value index and 110 as its import unit value

(i) Calculate the terms of trade of such a country?

$$\text{Terms of trade} = \frac{\text{Export price index}}{\text{Import price index}} = \frac{95}{110} = 0.86$$

(ii) Comment on such countries state of terms of trade

Since the ratio of export to import is less than 1, the terms of trade is unfavourable

(d) (i) Of what importance are foreign reserves to a country like Uganda?

- They are used for servicing of foreign debts
- They can be used for foreign investments
- They can be used for removing the balance of payments
- They can be used for importing capital goods or machinery
- It Assist the government in meeting its foreign exchange needs
- maintain a reserve for national disasters or emergencies.
- **To reassure foreign investors.** Holding large amounts in forex reserves projects an air of confidence, which can prevent investors moving their capital to other countries, which could cause an economic downturn
- To fund internal projects. Sometimes countries will use their currency reserves to provide cash to industries, most often infrastructure programmes.

(iii) How are foreign reserves acquired?

Foreign exchange reserves are accumulated the same way an individual acquires savings – by taking in more than it spends.

- Selling the government property abroad
- From private foreign investment abroad
- From export receipts
- Income from tourism industry
- Through remittance from those working abroad
- Foreign money aid
- Through borrowing
- by selling the domestic currency in exchange for foreign currency.
- purchasing reserves outright
- attracting foreign businesses,

(e) Distinguish between “ funded debt” and “floating debt”

Funded debt is a long term debt incurred by the government that is backed by real assets whose date of repayment is not known and not fixed. Whereas floating debt is a short term debt incurred by the government which is not backed by any security, but merely the creditors’ confidence in the government promise e.g. advances from central bank, sale of short term bills by commercial bank.

(f) (i) what is oligopoly?

Oligopoly markets are markets dominated by a small number of suppliers dealing with either homogenous or differentiated products with each seller having substantial share of the market

(ii) Give two examples of imperfect oligopoly in Uganda

Examples of imperfect oligopoly i.e. these deal with similar but differentiated commodities

- Producers of oil product e.g. Caltex, shell, Totalenergies.
- mobile phone network providers e.g. MTN, Airtel
- soft drinks
- beer industries e.g. Nile breweries , Uganda breweries

(g)(i) What are contributions do different factors of production contribute to National Income?

In economics, factors of production are the resources people use to produce goods and services; they are the building blocks of the economy. Economists divide the factors of production into four categories:

- land -rent,
- labor - wage,
- capital - interest,
- entrepreneurship - profit

(ii) Why would you expect one firm to make super normal profit while another makes losses while they operate under conditions of perfect competition?

In a perfectly competitive market, firms are price takers which mean that they have no bearing on the market price. The one making supernormal profit could be due to

- efficiency and old in business hence could be operating at optimal point where it incurs low cost of production
- expansion of its business on large scale hence enjoying economies of scale

The making losses could be due to

- inefficiency and being young in business and incurs high costs of production.
- Over expansion hence leading to diseconomies of scale

(h) (i) What assumptions are made in the theory of international trade for countries to benefit from it?

The theory of trade is based on the following assumptions

- The amount of labor and capital in two countries differ (difference in endowments)
- Technology is the same among countries (a long-term assumption)
- Assume two countries
- Assume two commodities e.g. cotton and coffee
- Assume labour is the only factor of production
- Assume that supply of labour is constant and fully employed
- Assume perfect mobility of factors of production within the country and immobile between countries
- No transport costs are involved
- Barter trade system exists
- Production of commodities is subject constant costs

(i) (i) Define commercial policy

These are measures undertaken by the government to influence the value, volume and direction of domestic/international trade in order to benefit from it.

(ii) Give two commercial policy instruments used by governments

Commercial policy instruments include:

- Tariffs
- Quotas
- Exchange rate policy
- Dumping
- Trade agreements
- Trade embargo
- Subsidies
- State trading

(j) Outline any four factors which could be indicated by a plan strategy

- Plan formulation (identification of aims and objectives to be achieved)
- Setting plan targets (reducing unemployment by 10%)
- Formulation of strategies
- Plan acceptance and adoption
- Plan implementations
- Plan evaluations /appraisal

Thank you

SECTION B

2(a) What are the basic features of private sector in Uganda (LDCs)

- They are profit motivated
- Private ownership and control.
- No state participation.
- Independent management.
- Private finance.
- Firms are characterised by consumer goods
- Firms are urban based
- They are dominated by import substitutes
- Dominated by small business
- Have limited capital.

(b) Explain why the public sector in your country has failed to achieve its objects.

- Limited capital to service vital services such as education and health.
- Poor infrastructure such as roads hinder prompt delivery of goods and services
- Slow decision making due to bureaucracy
- Political instability take up resources that would be used for other development services
- Subsidies from the government make them sluggish
- Poor work culture and attitude among workers in public sector lead to low productivity
- Public lack enterprise due to monopoly or lack of competition.
- Inadequate staffing
- Poor supervision and unskilled administration
- Stiff competition from private firms may cause public firms to collapse

- Influence of interest or pressure groups who are able to manipulate politician for their selfish interest may interfere public sector goals
-
- Political interference: When politicians and civil servants seek to pursuit self-interest, it can lead to incorrect allocation of resources
-
- Poor motivation due to low and inequitable remuneration discourage workers from performing their roles
-
- Weak State of Records Management in public sector hinders follow-ups and regular improvements
-
- Poor working environment hinders service delivery.
-
- High wastage rates due to inefficiency
- Under Utilization of Capacity: Public enterprise is facing the problems of underutilization of its installed capacity.
- Time and Cost Over-Runs: Most of the public sector projects take the long ester time to complete than was initially envisaged. The cost of the projects also runs upwards due to delay in completion of projects.
- Problems of Audit and Inspection: Although there is a system of audit and inspection in such enterprises, it is not followed in practice

3. Discuss the social and economic implications on economy where 60% of the population is below adult age, 10% above retirement age and annual population growth rate is 4%.

Answer

Given young population 60%

Old population = 10%

Working population = $100 - (60 + 10) = 30\%$

Dependency ratio = $70/30 = 2.33$

- (i) Since the dependence ratio (2.33) greater than one the advantages accruing from it are
- There is a market for commodities consumed by young people such as textbooks and toys
 - there are lots of potential workers for the future from young people.
 - There is little expenditure to luxuries
 - There is limited rural –urban migration from very young and very old people
 - There are many old people to advise the younger ones
- (ii) Disadvantages of high dependency ratio
- There is high government expenditure on services like schools and hospital.
 - There shortage of labour
 - Low tax revenue since few people are employed
 - High demand for pension from old people
 - Conservatisms of old people delay modernization
- (iii) Advantage of high population growth rate
- Increase in market due to high demand for goods and service.

- Increase in labour force that leads to high production
- Increased competition leads to efficiency in production
- Increases innovativeness because of increased youth
- Facilitates mobility of labour due to population pressure in an economy
- It stimulates investment due to high demand for goods and services
- It promotes economic growth as it leads exploitation of resources

(iv) Disadvantages of high population growth rate

- Increase dependence burden
- Reduced investment since there is high consumption rather than capital good
- Worsens income inequality as a result of small working group
- Worsen unemployment as the rate of job seekers exceeds the existing job opportunities
- Low capital accumulation because of high marginal propensity to consume among the young.
- Low level income per capita due to large number of people regardless of their economic contribution
- Increase inflation due to excessive demand for goods and services.

4. Economic growth involves both benefits and costs. How far do you agree with this statement?

The benefits of economic growth

- It increases the volume of goods and services that in turn increase human choice hence increases consumer sovereignty
- It increases a country's tax base and government's revenue. Also ensures provision of social services like education
- It raises the general standards of living of people overtime especially when per capita income grows over a long period of time
- It is powerful tool against poverty. Those who contribute towards economic growth escape the vicious cycle of poverty
- It brings about employment opportunities in many growing sectors of economy. This finally leads to income redistribution
- It improves the balance of payments of the country concerned. Increased output leads to increased exports and consequently reduces balance of payment deficit.
- Since economic growth increases output, the general price level is expected to fall. Commodities become relatively cheap. This reduces the rate of inflation and increases the rate of consumption.
- It contributes to a country's prestige because as economy grow faster, its military and economic strength grow
- It improves literacy as people get money they educate their children
- It leads to industrialization as output from agriculture increases.

Disadvantages of economic growth

- It leads to foregoing leisure as people strive hard to achieve economic growth through increased output. Leisure is important in improving peoples' standards of living.
- It leads to technological unemployment as machines replace human labour at places of work.
- It leads environmental degradation through quick soil exhaustion, air and water pollution, deforestation. This in turn negatively imparts on human, plants and animals life
- It leads to resource depletion overfishing depletes fish from the water bodies
- It leads to postponement of current consumption at the expense of the future consumption as most people prefer to save and investing for future output. This retards their current standards of living

- It leads to rural-urban migration in search for jobs and higher salaries.
 - It leads to heavy debt burdens to over reliance on other economies
 - It leads to income inequality as equity is not emphasized as output increases. Besides the benefits of economic growth are not shared by all the people who incur social costs which worsen income inequality
 - It denies people consumer goods as producers strive to produce more capital goods which increase output.
 - It degenerates social values and traditions among the nationals in the name of modernity
5. What could be used to encourage the movement of labour force from urban areas to rural areas in your country.
- Improving economic infrastructure like roads and electricity in rural areas. This will encourage people to move back from urban to rural area
 - Extending social services like schools, hospitals, televisions and radio accessibility.
 - Subsidization of agricultural inputs and increase prices of agricultural products to enable people have high income.
 - Land reforms that increase accessibility of land to people
 - Extending credit at low interest rates to farmers and business community to rural area
 - Encouraging foreign and local investors to invest in rural areas
 - Encouraging or even forcing people with no jobs to go to the rural area.
 - Political stability and social security in rural area
 - Encouraging non-government organisations to operate in rural area and attract people in rural area
 - Making the minimum wage uniform throughout the country. This will make the cost of living in urban areas very high compared to rural areas encouraging people to migrate to rural areas
 - Redistribution of government Universities in rural areas since graduates of these universities will find it easier to work in rural areas.
6. (a) Explain giving examples, the concept of dualism in an economy
- Economic dualism, most broadly defined, refers to **the coexistence of two or more economic systems. Examples are**
- Sectoral dualism this refers to the existence of a traditional peasant sector that produce products for house consumption such as production on small plots of land and modern capitalistic sector that produces products for sale such as o large scale production.
 - Technological dualism: the co-existence of traditional peasant sector which uses simple tools like hoe and modern commercialised sector which uses modern tools like tractors
 - Exchange dualism: coexistence of modern methods of exchange like using cheques, money, and wireless transfer in transactions with traditional systems of exchange like barter trade.
 - Social dualism: coexistence of contradicting social economic groups in a given society i.e. the rich and the poor.
 - Financial dualism: coexistence of two financial systems one desirable and organised e.g. organized exchange system like banks and unorganized exchange system like home, bar, market etc.
 - Labour dualism: coexistence of different labour markets e.g. skilled and unskilled
 - Regional dualism: coexistence of regions at different levels of development e.g. city and rural areas
 - International dualism: coexistence of countries at different levels of development e.g. first world and third world countries.

(b) Why would export promotion be a better development strategy than import substitution?

- Export promotion industrial strategy increases the foreign earnings therefore improves the balance of payment position of a country while Import substitution only save foreign exchange
- Establishment of labour intensive export promotion provides labour to the people
- It encourages diversification to increase on the volume for export.
- Promotion of foreign market increases the market for the goods and services promoting economies scale. In import substitution small sized domestic market may not exploit the economies of scale from production which hinders growth
- It leads to domestic resource utilisation since raw materials are used in production
- Export promotion expose local industries to foreign competition, technology and marketing that lead to improvement of manufacturing sector to cater for quality standards of international market. Lack of external competition in import substitution reduces efficiency of infant domestic industries.
- Skill development is encouraged to enable production of quality products and services
- Promotes international cooperation
- Leads to development of infrastructures like roads, electricity
- Promotes entrepreneurship.
- Leads to economic growth due to increased earnings
- Increased tax earning from export tax but failure by local industries to meet the customers demand can lead to black market and financial leakage reduce government revenue.
- Exporting products boosts the local economy and helps local businesses increase their revenue
- It improves research, development and innovation because it may necessitate a change in existing products to suit new markets.
- Lead to value addition to agricultural output thereby attracting high income.
- Exports allow access to imports that can be purchased with the foreign exchange they generate such as superior technology that allows productivity gains
- Increased profitability because export is done in big quantities
- Exporting protects business against fluctuations in the domestic business cycle, thereby protecting your revenue and employees.
- Import substitution may lead to monopoly

7(a) why is it necessary for your country to prepare national development plans.

Instead of relying on market and price mechanism, it is necessary for the State to prepare national economic development plan to coordinate all factors of production and make optimum allocation of resources to create economic growth and development that is to say:

Instead of relying on market and price mechanism, it is necessary for the State to prepare national economic development plan to coordinate all factors of production and make optimum allocation of resources to create economic growth and development that is to say:

- to regulate Market and Private Sector in order direct resources according to plan priorities.
- to correct market imperfection and price mechanism because they may not reflect the true opportunity cost of the entire country. For instance, a government may have to regulate the prices of goods, especially those of essential products such as drugs, milk,

soaps, washing powder, cement, steel, petroleum products such as petrol, diesel, LPG etc.

- to allocate resources according to countries priorities.
- to reduce income inequality in most economies especially in LDCs.
- to create jobs and expand employment
- Carefully prepared development plans are necessary to attract foreign aid and international loans for funding.
- to attain favorable balance of payment by promoting exports and minimizing imports.
- to prepare for present and future country's human capital development to increased productivity.
- to plan for infrastructures such as road, schools and health facilities to cope with population growth rate.
- to protect citizens against consumption of substandard and dangerous products. It ensures that goods produced by private sector and those imported are of good quality.
- to justify government involvement in risky, large and expensive programs like dams and irrigation schemes which need a lot of capital to convince the parliament pass their budget
- to encourage citizens to participate in national development. Good plans make it easy for the government to mobilize across the country.
- to ensure a rapid institutional transformation of the economy. From traditional agriculture to modern monetary industrialization and self-sufficient economy.
- to attain price stability so that there is no inflation or deflation.
- to facilitate employment and job creation
- to foster population management
- To ensure women and gender equity
- to encourage citizens to be active in their own development, in strengthening democracy and in holding their government accountable
- to accelerate Capital Formation and Economic Growth:

(b) Outline advantages for sectoral planning for a country like Uganda.

Sectoral planning is planning that deals with particular sectors of national economy such agriculture, industry, education, etc.

Advantages of sectoral planning

- Allocation of resource according to priorities
- Development of different regions according to resource endowment
- Encourages specialization of skill
- Improves the quality of products produced
- Improves on research work through training and seminars
- Minimizes on unnecessary expenditure

8(a) With examples show how recurrent government expenditure differ from development expenditure.

Recurrent expenditures is government expenditure on the day to day running of state e.g. paying salaries of public servants, expenditure on fuel and so on. Whereas development expenditure is an expenditure on medium to long term products such as dams, roads and schools.

(b) Account for the recent increase government expenditure in Uganda

- Funding big projects such as road and energy
- High population growth which gives rise to many dependants
- High corruption rate
- Funding of inefficient public enterprises what would otherwise generate their own revenue.
- Lack of accountability in government ministries leading to excess spending.
- Increased demand to modernized agricultural sector. The government spend a lot on agriculture being the backbone of the economy
- Unnecessary frequent foreign and local trips by government officials
- High level of indebtedness to which government has to pay principal and interest

(c) Suggest ways and means of cutting down government expenditure without interfering with the economic development of the country

- Fighting corruption
- Privatize public enterprises
- Publicise family planning methods to reduce on high population growth rate
- Reduce on the frequent foreign trips by employing modern method of communication
- Increase education funding such that children stay longer in school to reduce on years of production
- Improving public sector efficiency and accountability