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Economics paper 2 set 11 and marking guide

SECTION A

Answer all parts of this question

1. (a) (i) Differentiate between nominal and real Gross Domestic Product (GDP). (02 marks)

Nominal Gross Domestic product - refers GDP/national/output **valued at current year prices.**

Or

The total monetary value of all final goods and services produced within a country during a given period of time **valued at current year prices.**

While

Real Gross Domestic product is one valued at base year prices.

- (ii) Given that a country's GDP is Shs. 400 billion, net income from abroad is Shs. 40 billion and depreciation is Shs. 20 billion; calculate the Net National Product (NNP). (02 marks)

$$\begin{aligned}\text{NNP} &= \text{GDP} + \text{Net income from a broad} - \text{depreciation.} \\ &= \text{Shs. 400billion} + \text{Shs. 40billion} - \text{Shs. 20billion.} \\ &= \text{shs 420billion}\end{aligned}$$

- (b) Mention any two:

- (i) factors that have influenced the level of foreign direct investment in your country. (02 marks)

- The level of infrastructural development.
- The political atmosphere/ climate.
- The availability of raw materials/the natural/resource(s) base.
- The availability of capital/the existing stock capital.
- The entrepreneurial ability.
- The techniques of production.
- The labour skills
- The land tenure system.
- The degree of conservation
- The level of accountability/corruption.
- The price stability/the rate of inflation.
- The market size.
- The degree of liberation of the economy.
- The level of (external) publicity of investment opportunities in the country.

(ii) benefits of foreign direct investment in your country. (02 marks)

- Utilization of idle potential resources hence avoidance of resource wastage.-
- Provision of employment opportunities.
- Increases labour skills/fills the skilled manpower gap/increased supply of skilled labour.
- Increases output hence economic growth.
- Provides revenue to government through taxation.
- Infrastructural development.
- Leads to technological transfer/fills the technological gaps/technological development.
- Widens consumer choices due to production of variety.
- Efficiency of local firms due to competition.
 - Leads to production of quality goods.
 - Leads to the development of the industrial sector
- Promotes friendly relations with other countries (hence increases international peace and trade aid).
- Increases the inflow of foreign exchange/fills the foreign exchange gap.
- Improves the balance of payment position.

(c) State any four features of dualism in your country. (04 marks)

- the coexistence of traditional and modern technology.
- the coexistence of commercial versus traditional (subsistence) sectors.
- the coexistence of illiterates along side the literate.
- Barter exchange versus monetary exchange.
- High income versus low income earners /the rich versus the poor.
- the developed versus poorly/under developed regions.
- Coexistence of the traditionalists versus modernists/liberals.

(d) (i) Distinguish between cost-push inflation and bottleneck inflation. (02 marks)

Cost push inflation -is a persistent increase in the general/average price level due to rising costs
/average cost of production

While.

Bottleneck inflation - is a persistent increase in the general/average price level due to supply rigidities/structural bottlenecks in the sectors of the economy leading to decline in the supply of essential goods

(ii) Mention any two causes of bottleneck inflation in your country

- Break-down of infrastructures
- Political instability
- Natural hazards
- Hoarding of goods (by traders)
- Breakdowns of machines
- Breakdown of (key) industry/sector.
- Scarcity/shortage of inputs/raw materials.
- Shortage of foreign exchange.

(e) What is meant by labour - saving techniques of production? (02 marks)

Labour saving techniques of production - is a method of production that uses proportionately

more capital than (other factors of production especially) labour, i.e. uses proportionately less labour than other factors (capital).

(ii) Mention any two merits of the labour - saving techniques of production in an economy. (02marks)

- Economies of scale are enjoyed due to large scale production.
- It leads to high quality of output.
- Optimum utilization of resources/increased resource utilization.
- High rate of growth of the industrial sector .
- Reduced wage bill.
- Leads to standardization of output.
- Promotes infrastructural development.
- It is time saving.
- It minimizes labour unrest

SECTION B

Answer any four questions from this section.

2. (a) Differentiate between competitive supply and joint supply. (04 marks)

Competitive supply- the supply of two or more commodities that use the same resources for their production; such that an increase in the supply of one product leads to decline in the supply/production of the other; examples include; eggs and meat from chicken; milk and meat from cows; crop and animal production from a piece of land.

While

Joint supply - refers to the supply of two or more commodities from the same process of production/same source/same resources such that an increase in the supply of one commodity leads to increase in the supply of the other. For example meat and skin from (slaughtered) animals; petrol, diesel and paraffin from crude oil (through fractional distillation).

(b) Explain the conditions that may lead to a decrease in the supply of commodity in your country. (16 marks)

- Decline in the price of a jointly supplied product.
- Increase in the price of a competitively supplied commodity.
- Natural conditions becoming unfavourable,
- Change in the producers(main) objective for example from sales maximization to personal welfare maximization.
- The political atmosphere becoming unfavourable.
- Breakdown of infrastructure.
- Decline in the number of producers/exit of some firms from the industry.
- Increase in the cost of production.
- Depreciation of capital/machines/loss of value of machine.
- Shift from capital intensive/superior to inferior or poor or labour intensive technology.
- Fall in the efficiency of factors of production (labour, entrepreneurship).
- Decrease in the supply of factors of production (labour, raw materials).
- Expectations of future price increase.
- Government policy on production of a commodity becoming unfavourable.
- Fall in demand for a commodity

3. (a) Distinguish between economic growth and economic development. (04 marks)

Economic growth - refers to a persistent increase in the quantity of goods and services produced in an economy during a given time.

Or

The steady process by which the productive capacity of the economy is increased to bring about rising levels of national output and national income.

While

Economic development - is the **persistent quantitative** and **qualitative increase** in the goods and services produced in an economy over/during a given time.

Or:

The persistent, quantitative and qualitative increase in GDP (over a long period of time), it includes qualitative changes in variables that improve life of citizens such as increased freedom of choice, self-esteem etc.

(b) Explain the costs of economic growth in your country

- Leads to unemployment due to automation/technological unemployment/ exit of inefficient firms from production.
- Widens income (and wealth) disparities.
- Leads to decline in social and cultural values/cultural erosion/individualism.
- Leads to imbalance in regional development.
- Rural urban migration and its evils.
- High levels of occupational hazards.
- Environmental degradation/pollution/social costs.
- Exhaustion of non-renewable resources due to over exploitation.
- Profits repatriation.
- Increased/high dependence on external resources/debt burden.
- Low quality of output.
- Leisure time is foregone.
- Sacrifice of present consumption (in order to save investment).

4. (a) Explain the causes of voluntary unemployment. (08 marks)

- Laziness/negative attitude.
- The desire (by the unemployed) to live on past savings.
- Low wages/remuneration and other benefits in the available jobs.
- The preference to live on others incomes.
- Expectations of better jobs in future/expectation of better paying jobs in the future.
- The unemployed being too qualified for the available jobs.
- Preference for leisure.
- Poor working conditions in the available employment opportunities.
- High risks involved in the available jobs.
- Low status esteem attached to the available jobs/jobs being socially unacceptable.
- a Social restrictions.
- Social ties.
- Unfavourable geographical location of jobs which discourage individuals to take up jobs.
- Poor infrastructure such as roads.
- Political instability.
- Unfavourable natural factors.
- Good economic background of the unemployed preference to live on their peoples' incomes/benefits.

(b) Suggest measures that should be taken to reduce the level of unemployment in your country. (12 marks)

- Control population growth rate through sensitization seminars/family planning programs.

- By training labour/education reforms/manpower planning.
- Developing infrastructures.
- Diversification of the economy.
- Through (further) privatization.
- Reform the land tenure system.
- Liberalization of the economy.
- Improve the political atmosphere.
- Encouraging use of appropriate technology.
- Improve investment climate/provide tax incentives to investors.
- Widen market (for example by joining economic integration).
- Advertising jobs
- Modernizing agriculture.
- Providing (social) programs for persons with special needs/disabilities.
- Exporting surplus labour to other countries.
- Promoting industrialization.
- Fighting corruption.
- Providing affordable credit for investment.

5. (a) Distinguish between banking financial institutions and non - banking financial institutions.

(04 marks)

Banking financial institutions - are firms/organizations/ financial institutions that receive deposits, give out loans and create credit/new deposits

Whereas;

Non-banking financial institution- are those that receive deposits, give out loans but do not create credit.

(b) Explain the functions of banking financial institutions in your country. (16 marks)

- Accepting deposits.
- Advancing loans.
- Act as custodians of their customers valuables (by providing strong rooms).
- Insurance of various forms of credit
- Instruments/provides easy means of payments such as cheques, drafts, and credit and debit cards.
- They issue letters of credit and act as references (to their clients).
- Provide advice to investors (on possible investment choices).
- Under - write shares and debentures of companies as well as discount bills of exchange.
- Acts as trustee and executors of property and will of their customers.
- Exchange of currencies of different countries.

6. (a) What is meant by the term balance of payments? (04 marks)

Balance of payments - refers to the difference between a country's receipts/income from abroad and expenditure/payments abroad during a given time.

Or;

It is a systematic record of a country's receipts and payments in international transactions in a given time, usually a year

Or;

The difference between earnings /income/receipts from abroad and payments abroad (visible and invisible trade and net capital transfers) of country during a given time.

(b) Account for the persistent balance of payments deficit in your country. (16 marks)

- Low volume of exports.
- Exportation of low quality products.
- Exportation of mainly primary products such as agricultural raw materials.
- High (marginal) propensity to import/high preference for goods from other countries.
- Political instability leading to heavy expenditure on the importation of military hardware.
- Importation of highly priced (manufactured consumer and capital) goods.
- High expenditure on payments/servicing external debts.
- Trade restrictions in export markets.
- Heavy government expenditure abroad e.g. on diplomatic missions, contributions to international organizations.
- High levels of profits and wages repatriation.
- Market flooding/limited markets abroad due to exportation of similar products by developing economies.
- Prices of exports are externally determined.
- Limited variety of exports.

7.(a) Distinguish between government recurrent expenditure and development expenditure. (04 marks)

Recurrent expenditure (of government)/consumption expenditure/operating expenditure - is the day-to-day spending of government aimed at maintaining existing capacities for example, payment of wages, rates, rent, interest on the national debt and periodic contributions to international organizations.

While;

Development expenditure (by government)/capital expenditure is the expenditure by government on the establishment of projects for purposes of both expanding existing capacities or creating new one to generate more goods and services, for example, expenditure on setting up medical centres, schools, roads and other forms of infrastructure.

(b) Account for the increase in public expenditure in your country. (16 marks)

- (Rising costs of infrastructural development.
- Rising emergency funding due to frequency of natural hazards.
- Systemic corruption/rising levels of corruption/embezzlement by public officials/rising costs of fighting corruption.
- Rising defence expenditure due to (increasing) 'political unrest/social unrest.
- Increasing expenditure on settlement of the public debt.
- Rising expenditure on international commitments /engagements.
- Continuous over ambitious planning.
- High cost of administration on public service i.e. big parliament, big number of public servants, frequent elections.
- High rate of inflation (leading to rising costs of project implementation).
- High population growth rate/rising population which calls for government expenditure on social services e.g. medical, education etc.
- Rise in administration costs due to increasing public service e.g. big cabinet.
- Rise in government expenditure on programs to provide employment, income generation etc.

Thank you

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