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Economics paper 1 set 12 and marking guide

SECTION A

Answer all parts of this question.

1. (a) (i) Distinguish between economic profit and abnormal profits. (02marks)
(ii) Mention any two factors that influence the level of profits in your country (02marks)
- (b) (i) What are development goals? (01 mark)
(ii) Mention any three development goals in your country. (03marks)
- (c) State four factors which limit the effective operation of trade unions in your country. (04marks)
- (d) (i) what is meant by economic development planning? (01 mark)
(ii) Give any three factors that affect the implementation of development plans in your country(03 marks)
- (e) (i) Differentiate between taxable capacity and tax base (02marks)
(ii) State any two reasons for the narrow tax base in your country (02marks)

SECTION B (80 MARKS)

Answer any four questions from this section

2. (a) Describe the features of an oligopolistic market. (08 marks)
(b) Examine the merits and demerits of oligopolistic market. (12marks)
3. (a) Explain the role of private sector in the development of your country(10marks)
(b) What measures have been to promote development of private sector in your country? (10marks)
4. (a) What is meant by foreign aid? (04marks)
(b) Assess the impact of Foreign Aid on the development of the country. (16marks)
5. (a) Outline the objectives of the monetary policy in your country (06marks)
(b) Examine the factors that limit the success of monetary policy
6. (a) What is meant by trade "trade liberalization?" (02marks)
(b) Examine the merits and demerits of trade liberalization. (18 marks)
7. (a) Explain the contribution of public enterprises to the development of your country. (10marks)
(b) What are the problems faced by public enterprises in your country. (10marks)

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SECTION A

Answer all parts of this question.

1. (a) (i) Distinguish between economic profit and normal profits. (02marks)

Economic profit is an earning measured or derived by getting the difference between the revenue and opportunity cost of factors used in the production of output sold by the firm.

Or

Economic profit is the difference revenue got by a firm and what it would have got in the second best alternatives use/employment.

Normal profits earnings or rewards to an entrepreneur(s) or a firm(s) that is just sufficient (enough to cover total costs or keep him/it) in production without inducing other firms to join the industry

Here $AR = AC$ and $TR = TC$

- (ii) Mention any two factors that influence the level of profits in your country (02marks)

- Price level/ the rate of inflation.
- Cost of production/cost of sales/ efficiency of firms
- Goal / objective of the producer(s).
- Entrepreneurial skills organizational ability.
- Degree risks (of investment).
- Level of output / supply /turnover/size of the firm
- Market size / demand.
- Ease of entry of firms into an industry | number of firms in an industry.
- Level of competition
- Level of customers' income

- (b) (i) What are development goals? (01 mark)

Development goals are targets or objectives which have to be achieved in a given time in order to achieve economic development.

- (ii) Mention any three development goals in your country. (03marks)

- Attainment of full employment
- Achieving a high rate of economic growth
- Minimizing inflation
- Reducing income inequality and poverty
- Gender equity
- Balance of payment stability
- Reducing economic dependence
- Equality of regional development.
- Control population growth
- Maintain political stability

- (c) State four factors which limit the effective operation of trade unions in your country. (04marks)

- Disunity of workers
- Poor leadership ability
- Political interference

- Limited fund
- Limited skill of members
- High levels of unemployment.
- Limited membership/low level of unionization.
- Low demand for products produced by members to employ a tool of boycott in their bargaining for salary increase.
- Poor economic performance / low profitability of firms.
- Low demand for labour/High degree of substitutability of labour
- Low level of accountability/ corruption
- Poorly developed infrastructure(s)/ poor communication
- High proportion of wage bill to total costs.
- Apathy / ignorance of workers of their rights.
- Having no other sources of income.

(d) (i) what is meant by economic development planning? (01 mark)

Economic development planning is the conscious government's effort to influence, direct and in some cases control changes in a nation's principal economic variables to achieve pre-determined objectives/objectives of development over a given period of time

OR

Economic development planning is a deliberate governments' effort to formulate decisions on how productive resources shall be allocated among different uses in order to attain targeted economic objectives over a given period of time.

(ii) Give any three factors that affect the implementation of development plans in your country (03 marks)

- The availability of data / information
- The degree of responsiveness of the private sector
- The level of government commitment / the level of conservatism/ the will of the people.
- The degree of political interference.
- The efficiency of the implementation machinery/labor skills.
- the political atmosphere/climate.
- The level of accountability
- The rate of inflation / the price level.
- The ambition of planning) relative to means/the degree of ambitiousness of planning
- The degree of dependence on external resources / or aid for planning.
- The level of dependence on nature / the conduciveness of natural-factors.
- The level of infrastructural development

(e) (i) Differentiate between taxable capacity and tax base (02marks)

Taxable Capacity means the maximum capacity of the people of a country to bear the burden of taxation without much hardship or taxable capacity or **taxable capacity** refers to the ability of the tax payer to pay the tax assessed to him and remain with enough disposable income to enable him enjoy his former standard of living.

A **taxable base** is a range of economic activities on which government levy taxes. They include the **total amount of income, property, assets, consumption, transactions, or other economic activities.**

(ii) State any two reasons for the narrow tax base in your country (02marks)

- **High levels of poverty among the tax payers.** Many people are poor and therefore they cannot afford to pay income tax. This greatly reduces tax revenue received from incomes of tax
- **High degree of tax evasion and avoidance by the tax payers.** This is either due to lack of commitment by the tax officials or existence of loopholes (weakness) in the tax law. Therefore, many activities are carried out without paying taxes.
- **High levels of unemployment and under employment.** Many people are unemployed and therefore they cannot pay certain taxes for example pay as you earn. In addition, many tax payers are under employed and this limits the amount of money they pay in form of taxes.
- **Existence of a small industrial sector.** Uganda's industrial sector is small and weak yet it is the major source of tax revenue. In addition, the high degree of tax exemptions especially on foreign investors who would otherwise be potential tax payers narrows the tax base.
- **High levels of income inequalities among the tax payers.** The income gap between the rich and the poor is so wide and therefore there are few individuals who can carry out economic activities to effectively pay.
- **Wide spread political instabilities and insecurity.** Such instabilities discourage potential investors who would set up investments and widen the tax base.
- **Poor social and economic infrastructures.** For example inaccessible roads and poor telecommunication networks. This makes it difficult to access especially the rural areas to mobilize and monitor the tax collection
- **High levels of corruption and embezzlement** of tax revenue by tax collectors (officials).The little tax revenue collected is also diverted by the corrupt officials for personal use and this reduces the tax revenue
- **Inadequate information by the tax payers** about the importance of paying taxes. This mainly caused by lack of sensitization by the tax officials and therefore some people do not take payment of taxes as their
- **Incompetent, inadequate and inefficient tax administrative** machinery. Most of the tax officials are not well trained to carry out tax assessment and administration. They end up harassing the tax payers and this increases the chances of tax evasion hence low tax
- **Low levels of entrepreneurship in Uganda.** There are few individuals who can set up and sustain businesses upon which meaningful taxation can be. The existing businesses are small and they lack proper record keeping which makes tax assessment very
- **Large subsistence sector in Uganda.** Most economic activities are under the informal sector and therefore, it is difficult to tax them. This narrows the tax
- **Poorly developed infrastructure**
- Limited employment opportunities
- Limited economic diversification

SECTION B (80 MARKS)

Answer any four questions from this section

2. (a) Describe the features of an oligopolistic market. (08 marks)

- Few firms/suppliers and many buyers existing in the market
- Homogeneous products (perfect oligopoly) and differentiated products (imperfect oligopoly)
- Price wars/cut throat competition
- Price leadership for largest and low cost firms

- Non-price competition through advertising, after sales services, etc.
- Mutual dependence among firms.
- Limited information about the market
- Limited variety of products
- Abnormal profit earned both in short run and long run.
- $P = AR > MR = MC$ at equilibrium level of output
- High degree of uncertainty
- No unique pattern of pricing/ kinked demand curve
- profit maximization

(b) Examine the merits and demerits of oligopolistic market. (12marks)

Merits of oligopolistic market

- **There is competition and leads to the production of high quality production.** This enhances the standards of living of the consumers.
- **There is existence of price stability under oligopoly.** This is due to price rigidity determined at the kink of the demand curve. This helps to reduce price fluctuations and consumer exploitation in the market.
- **Ability to carry out research.** Oligopolistic firms are able to carry out research and improve on their techniques production. This is because they earn abnormal profits both in the short and long run.
- **Firms under oligopoly can offer after sales services to their customers.** For example transportation, repairs of machinery, gifts, guarantees etc. This increases on their customers' satisfaction.
- **Consumers have a wide choice** due to the production of differentiated products under differentiated oligopoly. This helps to cater for the different tastes and preferences of different consumers.
- **Firms enjoy economies of large scale due to their large scale nature of operation** e.g. in terms of transport, storage, management etc.
- **It leads to development of social and economic infrastructure.** This is as a result of large investments established in the economy.
- **They provide employment opportunities to the people.** This helps to improve on their incomes and standard of living.
- **There is efficiency in production.** This is because firms are involved in competition and therefore there is no wastage of resources.

Demerits of Oligopolistic market

- Distortion of consumer's choice through advertising
- Exploitation of consumers through over charging due to collusion/profit maximization motives
- Duplication and hence wastage of resources
- Worsen /cause income inequality
- Limited employment opportunities are created due to barriers to entry
- Limited investment/entrepreneurship development
- Limited variety of goods in perfect oligopoly markets
- Lead to collapse of small firms due to competition

3. (a) Explain the role of private sector in the development of your country(10marks)

- provision of employment
- increase government revenue
- promote infrastructural development
- promote resource utilization
- promote industrialization
- promote innovation and invention
- promote development of entrepreneurship skills
- provide variety of goods and services thus increase customers choice
- lead to development of labour skills
- improve balance of payment positions
- reduce economic dependence
- promote commercialization of economy

(b) What measures have been to promote development of private sector in your country?
(10marks)

- Development/ improvement of infrastructures
- Provided affordable loans/credit facilities to investors.
- Ensuring -political stability / improved the political climate.
- Widened markets both local and foreign.
- Ensured price stability I fought inflation / promoted forex rate stability,
- Undertaken, privatization policy.
- There has been liberalization of the economy.
- Trained labor to develop relevant skills.
- Offered investment incentives e.g. tax holiday's / relief, subsidies, etc.
- Encouraged technological development / transfer.
- Provided land for development / changed land tenure system.
- Improved entrepreneurship skills.
- Encouragement of proper accountability.
- Enacted copy right and patent right laws
- Undertook international campaigns and publicity.
- Establishment of specialized institutions to promote investments.

4. (a) What is meant by foreign aid? (04marks)

Foreign aid is the international movement of money, services, or goods from governments or international institutions for the benefit of the receiving country or its citizens.

(b) Assess the impact of Foreign Aid on the development of the country. (16marks)

- Closing the saving - investment gap
- Closing the foreign exchange gap/inflow of foreign exchange.
- Closing the technologic al gap / leads to technological transfer
- Fills the government-revenue expenditure gap / source of government revenue through borrowing, grant etc.
- Fills the (skilled) manpower gap I enables the country to get skilled labour (from other countries)
- Facilitates development of infrastructure.
- Alleviates effect of catastrophes.
- Provision of employment.

- Strengthens international friendship /improves international relations .
- Foreign aid in form of capital investment accelerates industrial growth in the country / diversifies the economy.
- improves local skills through training.
- Promotes economic growth.
- Exploitation of idle resources hence avoidance of resources wastage:
- Promotes political stability.

Negative impact(s) of foreign aid in the country

- BOP problems due to repayment obligations.
- Unemployment due to automation
- Undermines capital formation due to debt servicing and payment.
- Debt servicing sometimes denies nationals essential goods and services.
- Encourages laziness/kills local initiatives.
- Makes planning difficulty due to aid being inconsistent, inadequate, tied, etc.
- Political strings attached to aid undermine our political sovereignty.
- Underutilization of local resources reduced domestic production of some goods / hinders growth of some consumer goods.
- High costs of borrowing due to aid being tied to source / Purchase tied aid.
- Leads to brain drain.
- Leads to cultural erosion / corrodes social values.
- Worsens economic domination by donors
- Sometimes preset conditions are disastrous.

5. (a) Outline the objectives of the monetary policy in your country (06marks)

- To maintain domestic price stability
- To stimulate economic growth and development
- To ensure equitable income distribution
- To help to achieve full employment of resources in the economy
- To maintain a stable foreign exchange rate
- To ensure balanced sustainable growth and development of the economy
- To create a broad and continuous market for government securities (bonds and treasury bills)
- To help establish and develop financial institutions
- To ensure Balance of payments stability in the economy
- To encourage savings through the manipulation of interest rates.

(b) Examine the factors that limit the success of monetary policy in your country

- **Unstable money multiplier;** this makes it rather difficult to predict the amount of money in the circulation. This is due to inability to predict money supply accurately. This instability in money multipliers is mainly due to varying behaviour of public towards the banking sector.
- **Underdeveloped money and capital markets;** interest rate in these markets is so low that together with high rates of inflation, individuals and companies prefer to invest elsewhere other than securities and thus money policy has limited effects.
- **High levels of liquidity held by commercial banks especially those owned by foreigners.** They can easily get more liquid from their abroad to neutralize the restrictive monetary policy.

- **Ignorance about open market operations makes the instrument inefficiency.** People still prefer holding their wealth in cash form or other assets such as land, cows, buildings etc. therefore even if the Central Bank wishes to use monetary instruments, people are still ignorant about their operations.
- **Large subsistence sector;** the tools of monetary policy operate in monetary economy. Therefore monetary policy fails to influence this large segment of the economy where there is barter trade.
- **There is lack of independence of the Central Bank from government.** This results into incredibility of the Central Bank and hence inadequate in executing its monetary policy.
- **There is corruption,** mismanagement and inefficiency that discourage people from buying securities.
- **Lack of banking facilities/concentration of commercial banks in urban** areas resulting in failure to mobilize idle savings from rural areas.
- **Disequilibrium in Balance of Payments:** In less developed countries like Uganda, monetary expansion generally leads to increased imports and unfavorable balance of payments. This puts a limitation on the monetary policy.
- **Lack of Integrated Interest Rate Structure:** The various types of interest rates prevalent in the money market do not bear any definite relationship with the bank rate of the country. Any changes affected in the bank rate do not produce proportional changes in the other interest rates. The result is that the central bank of the country is unable to control the money market in an effective manner and monetary policy fails in its operation.
- **Proportion of Credit to Money:** The proportion of credit to money in the monetized sector is very small. Nearly 70-75% money supply consists of currency in active circulation. The bank deposits in such an economy form only a small and insignificant portion of the total money supply. This seriously limits the working of monetary policy.
- **Shortage of Real Factors:** Another problem in developing countries exists that there is a shortage of real factors like capital, entrepreneurial ability etc., therefore, monetary policy can do nothing about it.
- **Existence of Inflation:** A developing economy is highly sensitive to inflationary pressures. Government incurs huge expenditure on various types of development projects. It increases the effective demand much more than the output of consumer goods. The result is a sharp rise in the internal price level. Moreover during the course of hyperinflation, tools of monetary policy fail to work properly.
- **Black Money:** large quantity of black money exists due to political and economic factors. Black money is used for activities such as hoarding and speculative motives etc. As a result, it hinders the true spirit of the various objectives of monetary policy.
- **Non-Banking Financial Institutions:** According to Gurley and Shaw, non-banking financial institutions like "Life Insurance Corporation, State Financial Institutions and other Credit Financial Institutions, greatly hamper to achieve the objectives of monetary policy in a less developed country.
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- **Deficit Financing:** In the modern world, deficit financing is the main source of financing development activities. But heavy doses of deficit financing have proved inoperative to achieve the objectives of monetary policy. For example, monetary authority wants to check the supply of money while deficit financing helps to increase its supply. Thus how both factors can operate simultaneously.
- **Political interference**
- **Corruption especially in the use of selective credit control**

6. (a) What is meant by trade “trade liberalization?” (02marks)

Trade liberalization is the removal or reduction of restrictions or barriers on the free exchange of goods between nations

(b) Examine the merits and demerits of trade liberalization. (18 marks)

Advantages/benefits/Merits of trade liberalisation in Uganda are:

- increased employment opportunities
- Increased level of output hence increased growth rates
- Encourages resource utilization.
- Encourages inventions and innovations / technological transfer/ technological development.
- Competition forces firms to be efficient in order to remain in business,
- Improved quality of goods
- Increased revenue to government e.g. through taxation.
- Fights corruption.
- Tends to control structural inflation
- Improved B.O.P position as exports are encouraged.
- Reduces income and wealth inequalities among people and regions.
- Encourages foreign investment/ inflow of capital / resources
- Upholds consumer sovereignty
- Wide variety infrastructural development
- Improves relations with (other countries especially donors.
- Promotes entrepreneurial skills
- Promotes economic diversification

Disadvantages/demerits of trade liberalization in Uganda

- Makes the susceptible to instabilities especially price fluctuations.
- Collapse of local firms due to competition.
- It leads to unemployment.
- Danger of resource misallocation
- Duplication hence resource(s) wastage/ Depletion of some resources due to over exploitation.
- Flooding of markets that sometimes force prices to go very low to unacceptable levels.
- Distortion of Consumer choices due to advertisement / intensive sales promotional activities.
- Consumer exploitation due to ignorance
- Encourages capital outflows.
- May give rise to monopoly and its associated evils.
- Leads to income and wealth inequalities.
- Environmental degradation is accelerated.
- Leads to Foreign economic dominance.

7. (a) Explain the contribution of public enterprises to the development of your country. (10marks)

- provide goods and services that have low commercial profitability but having high social benefits

- reduce duplication and wastage of resources and goods
- provide employment opportunities
- promote investment
- provide employment opportunities
- protect customers/nationals from exploitation by private producer
- complement private sector and discourage monopoly
- encourage/mobilize savings
- ensure supply of goods that require high capital
- promote development of entrepreneurial skill
- promote equitable distribution of income
- improve balance of payment position
- reduce economic dependence/promote self-reliance
- promote infrastructural development
- encourage foreign investment/capital inflow
- encourage economic diversification

(b) What are the problems faced by public enterprises in your country. (10marks)

- **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
- 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
- corruption and embezzlement

Thank you

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