Economics paper 2 set 15 and marking guide

SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) Differentiate between vertical and horizontal integration of firms (02marks)
   (ii) Give any two factors limiting the integration of firms in Uganda. (02marks)
   (b)(i)Distinguish between economic growth and economic development (02marks)
   (ii) State two indicators of economic development in Uganda (02marks)
   (c)(i) What is meant by the term labour productivity? (01marks)
   (ii)Mention any three causes of low labour productivity in Uganda (03 marks)
   (d) Outline four factors that limit the principle of cooperative advantage. (04marks)
   (e) (i) What is meant by the term fiscal policy? (01marks)
   (ii) State any three instruments of fiscal policy used in Uganda (03marks)

SECTON B (80 MARKS)

Answer any four questions

2. (a) Account for the low level of investment in Uganda (10marks)
   (b) Explain the measures that have been taken to promote the level of investment in Uganda. (10marks)
3. (a) Why may a country adopt substitution strategy of industrialization? (10marks)
   (b) Explain the limitations of the import substitution strategy of industrialization in Uganda (10marks)
4. (a) Describe the structure of Uganda's population. (10 marks)
   (b) Examine the implications of this population structure in Uganda's economy (10 marks)
5. (a) Explain the role of infrastructure in economic development process of Uganda. (10marks)
   (b) What strategies have been taken by government of Uganda to improve the infrastructure? (10marks)
6. (a) Differentiate between a perspective plan and comprehensive plan. (04marks)
   (b) Suggest measures that should be adopted to improve economic planning in Uganda. (16marks)
7. (a) distinguish between a dead weight debt and funded debt. (04marks)
   (b) Access the effects of government borrowing in the development of Uganda. (16marks)

Guide

SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) Differentiate between vertical and horizontal integration of firms (02marks)

Vertical integration is the merging or coming together of firms operating at different stages of production process within the same industry for example agricultural firm and a grocery

Horizontal integration is the merging or coming together of firms operating at the same stage of **production** process, producing related or similar products, e.g. merging of banks or supermarkets.

(ii) Give any two factors limiting the integration of firms in Uganda. (02marks)

- Fear of high taxation
- limited market
- limited skilled manpower
- differences in economic objectives of firms
- fear of diseconomies of scale/complexity/high risk
- dealing in unrelated products
- government anti-monopoly legislation
- fear of bureaucratic delay
- shortage of skilled manpower
- differences in production techniques
- fear of loss of direct contact with customers
- fear of losing autonomy/independence

(b)(i)Distinguish between economic growth and economic development (02marks)

Economic growth is the sustained persistent **quantitative** increase in the country's volume of goods and services as measured by an increase in Gross National Product (GNP) in a given period of time usually a year compared with the previous period.

Economic development is the sustained persistent **quantitative and qualitative** increase in the country's volume of goods and services as measured by an increase in Gross National Product (GNP) and general welfare in a given period of time usually a year compared with the previous period.

Or

Economic development is defined as an increase **in a country's wealth and standard of living**.

(ii) State two indicators of economic development in Uganda (02marks)

- Increased supply of skilled labour
- reduced illiteracy
- Increased incomes.
- increased investment / entrepreneurship/capita accumulation
- Reducing political instability I improved political atmosphere
- Increased economic growth rates/output
- Increased utilization of the available resources.
- Improvement in techniques of production/technology.
- Increased infrastructural development
- Increased monetization of the economy/reduction in subsistence sector.
- Improving the quality of goods and services
- Increased market size / increased consumption
- Increased level of employment / reduced level of unemployment
- Rise in industrialization
- Decline in degree of conservatism/cultural rigidities
- Diversification of economy/reduced economic dependence
- Rising level of urbanization

(c)(i) What is meant by the term labour productivity? (01marks)

Labour productivity is to the measure of output per unit of labour employed in a given period of time.

(ii)Mention any three causes of low labour productivity in Uganda (03 marks)

- Low wages /poor remuneration of workers
- Use of poor technology/underdeveloped technology
- Low levels of skills
- Poor supervision of workers/management/entrepreneurship
- Poor health conditions or the workers
- Poor attitude towards work
- Low levels of experience and expertise
- Limited specialization in production.
- Poor working conditions
- Political unrest in some parts of the country
- Limited natural ability/ talents
- Limited invention and innovations/creativity
- Limited quantity and quality of co-operant factors

(d) Outline four factors that limit the principle of cooperative advantage. (04marks)

- Assumes two countries while there are many countries /dealings with many trading partners/ multilateral trade
- Assumes two commodities but there are many commodities in Uganda/diversification of export products.
- Existence of trade restrictions in international trade.

- High transport costs/ ignores the transport costs.
- Currency restriction s and changes in exchange rates /ignores the existence of different currencies used.
- Preference of monetary exchange to barter trade in Uganda /assumes barter but in the real economy of Uganda, there is monetary exchange.
- Uganda does not experience constant costs of production
- Existence of excess capacity in production/absence of full employment in Uganda/wrongly assumes possibility of full employment which is nonexistent in Uganda
- The desire (need} for self-reliance/reduce dependence in Uganda.
- Existence of increasing and diminishing returns/ ignores the existence of the law of diminishing returns.
- The price elasticity of demand for product produced in Uganda is not perfectly elastic/ is inelastic / it assumes elastic demand yet demand for agricultural products in Uganda is inelastic.
- Technology is not constant in Uganda / variations and changes in techniques of production /assumes constant technology but in Uganda technology is ever changing.
- Variations in the price(s) , quality and demand for commodities /diversification of products for export assumes immobility of factors of production externally but internally mobile which is not the case for Uganda / some degree of labour mobility internationally and immobility (geographically and occupationally) internally.
- Supply of resources in Uganda is not static.
- Would lead to poor terms of trade (T.O.T) for Uganda to specialize where it has comparative advantage in agricultural products.

(e) (i) What is meant by the term fiscal policy? (01marks)

Fiscal policy is **the use of government spending and taxation to influence the economy**.

(ii) State any three instruments of fiscal policy used in Uganda (03marks)

- Tax at ion
- Government expenditure
- Subsidization
- Fees
- fines
- Licensing
- Public borrowing
- Debt repayment
- Privatization.

SECTON B (80 MARKS)

Answer any four questions

2. (a) Account for the low level of investment in Uganda (10marks)

- limited capital
- limited skilled labour
- low income
- limited saving

- limited market
- high interest rates on capital loans
- political instability
- high levels of inflation
- limited entrepreneurs
- poorly developed infrastructures
- high population growth rate leading to high dependence
- high marginal propensity to import
- high corruption rate
- low level of technology
- limited supply of raw materials

(b) Explain the measures that have been taken to promote the level of investment in Uganda. (10marks)

- encouraged saving
- increased peoples income
- controlled population growth through family panning education
- widened market for local production through economic integration
- provided investment incentives such as tax holidays
- undertaken entrepreneurial development and training through liberalizing education
- pursed economic linearization
- undertaken land reforms
- encouraged technological transfer
- improve labour skills through education and training
- promoted diversification economy
- advertised/publicized investment opportunities through Uganda Investment Authority
- controlled corruption and embezzlement
- monetized economy
- established institution to promote investment such as Uganda Investment authority
- advertised/publicized investment opportunities to potential investors
- controls inflation
- ensures political stability

3. (a) Why may a country adopt substitution strategy of industrialization? (10marks)

- **It facilitates the exploitation and utilization of the idle local resources.** This is because import substituting industries mainly use local raw materials. This helps to improve on the productive capacities in the economy hence economic growth and development.
- **It widens the tax base of the country.** Import substituting industries widen the tax base in form of employment opportunities created and various investments undertaken hence generating more tax revenue to the government. The revenue realized is used to construct social and economic infrastructure like hospitals, roads, schools, power plants, roads etc.
- **It improves the standards of living.** The strategy leads to the production of a variety of high quality goods and services in the economy. This widens the choice of consumers at reduced prices hence better standards of living in the long run.

- **It facilitates technological progress in the country.** The strategy encourages the use of modem production techniques through research, inventions, innovations and technology transfer. This increases efficiency hence production of better quality goods and services.
- **It improves the balance of payment position of the country.** The strategy encourages local production of high quality goods and services which were formally imported. This reduces expenditure on imports hence improved balance of payment position.
- **It saves the scarce foreign exchange earnings of the country.** The strategy encourages the production of formerly imported goods locally. This reduces foreign exchange outflow hence accumulating foreign exchange reserves.
- **It increases employment opportunities.** This is due to increased resource utilization and a number of production and other economic activities carried out. This is true if labour intensive techniques of production are employed. This increases the income of the people.
- **It leads to the development of social and economic infrastructure.** The strategy promotes the development of the social and economic infrastructures in form of roads, schools, hospitals, financial institutions etc. required for import substituting industries.
- **It promotes self-sufficiency and reliance of the economy.** The strategy encourages the production of a number of formally imported goods and services locally. This leads to increased self-reliance and sustenance of the economy hence reducing of foreign dependence.
- **It promotes inter sectoral linkages in the economy especially with the agricultural sector.** This is because the import substituting agro based industries provide factor inputs to the agricultural sector and market for the products from the agricultural sector in form of raw materials.
- **It increases capital inflow in the country.** The strategy attracts foreign investors who bring in capital and efficient technology. This increases capital inflow and foreign skills in the country.
- **It increases the GDP of the country.** The strategy promotes the establishment of manufacturing industries which leads to the production of more goods and services hence high levels of national income and economic growth.
- **It facilitates the development of skills for local entrepreneurs.** This promotes managerial capacity building through on job training and helps to reduce government expenditure on training costs.

(b) Explain the limitations of the import substitution strategy of industrialization in Uganda (10marks)

- **Inadequate capital.** There is shortage of capital to set up and maintain the import substituting industries. Credit from financial institutions is only available at very high interest rate and this limits borrowing for investment hence under mining of success of the strategy.
- **Use of poor technology.** A number of imports substituting industries use old and outdated machines which need frequent maintenance and spare parts. this increases the costs of production in form of capital consumption allowance.

- **Unfavorable and conflicting government policies:** Such policies are in form of high taxes, low tariffs on imported manufactured goods and the general lack of clear policy guidelines concerning the establishment of import substituting industries. This makes it difficult to set up and operate such industries due to high costs of operation with limited government support.
- **Existence of economic instabilities.** For example high levels of inflation, exchange rate fluctuations, fluctuations in the supply of raw materials etc. Such instabilities limit the growth of the import substituting industries in developing countries.
- **Stiff competition from the imported manufactured products**. The imported goods are cheap and of high quality while the locally produced goods are expensive and are of poor quality. Therefore, they out compete the locally produced goods by the import substituting industries.
- **Poor and inadequate social and economic infrastructural facilities.** This is reflected in form of poor transport network, poor storage facilities, shortage of power supply and limited financial institutions. This limits the mobilization of factors of production hence undermining the strategy.
- **Limited skilled personnel and entrepreneurs.** This leads to low levels of investment and misuse of resources meant for setting up and maintaining import substituting industries.
- **Limited markets for the locally produced commodities.** This is due to the production of poor quality goods and low aggregate demand resulting from high levels of poverty in developing countries. In addition, consumers from developing countries have a high marginal propensity to import and this limits the demand for the locally produced commodities
- **Poor investment climate in form of rampant political instabilities.** This discourages potential investors from setting up import substituting industries due to fear of losing life and property.
- **Over dependence on expensive imported capital and other raw materials.** Most of the raw materials and capital goods for import substituting industries are imported from other countries. This increases the costs of production hence limiting the growth of the import substituting industries in developing countries.
- **Too much bureaucracy in developing countries.** This leads to delays in allocation of investment opportunities required for setting up import substitution industries especially to foreigners hence limiting the strategy.
- **Limited supply of raw materials**

4. (a) Describe the structure of Uganda's population. (10 marks)

- dominated by the young population
- female more than male
- over 80% live in rural areas
- majority are unskilled or semiskilled
- high growth rate
- dominated by poor people
- uneven spatial distributed

(b) Examine the implications of this population structure in Uganda's economy (10 marks)

Benefits/positive effects/implications/ advantages/merits of Uganda's population structure

- high market potentials
- high potential for labour force
- incentive for future investment
- high tax potential
- encourage labour mobility
- increased innovation and inventions
- encourage hard works to support dependents

Negative implication/disadvantages/demerits of Uganda's population structures

- low labour productivity
- high degree of dependence
- low saving
- high unemployment
- external resource dependence
- over strained available infrastructure
- high government expenditure to provide social service
- high rural-urban migration
- income inequality
- worsens debt burden

5. (a) Explain the role of infrastructure in economic development process of Uganda. (10marks)

- Promotion of investment/capital inflow
- promotion trade/accessibility to market
- promotes resource utilization
- creates employment
- improves social welfare of people e.g. health and educational facilities
- facilitate innovation and invention
- promote diversification
- promote entrepreneurship skills
- generate government revenue
- leads to increased foreign exchange
- increase mobility of factors of production
- promote industrial development
- leads to modernization of economy/agriculture
- reduce conservatism/break social rigidities

(b) What strategies have been taken by government of Uganda to improve the infrastructure? (10marks)

- constructed infrastructure
- rehabilitated infrastructures
- contracted private firms to develop infrastructure
- step up supportive institution such as UNRA

- improved labour skills by increasing the number of education facilities such as Universities
- imported modern technology
- provided incentives to investors
- under-takes private-public partnership in infrastructural development
- improve political stability
- advertised/publicized potential opportunities in infrastructural development to foreigners
- changed land tenure system
- provided road maintenance equipment to local authorities

6. (a) Differentiate between a perspective plan and comprehensive plan. (04marks)

   Perspective planning is a long term government planning that sets its target to occur for long period of time over 10 years.
   A comprehensive planning provides **a vision for the future of the country along with the steps that are needed to make that vision a reality** and covers all sectors of economy.

   (b) Suggest measures that should be adopted to improve economic planning in Uganda. (16marks)

- Raise sufficient funds
- Ensure proper data collection
- Promote autonomy of the planning authority
- / discourage political interference in planning
- Ensure government commitment in planning·
- Ensure efficiency of the planning machinery/ provide skills to planners
- Ensure peaceful I stable political climate/atmosphere
- Stabilize prices /fight or control inflation.
- Avoid over ambitious planning
- Minimize /avoid/reduce dependence on foreign aid which is inconsistent, inadequate and tied etc.
- Minimize /avoid dependence on nature
- Develop infrastructures.
- Encourage proper accountability

7. (a) Distinguish between a dead weight debt and funded debt. (04marks)

   A dead weight debt is that which is used to cover unproductive activities and it is not self-liquidating

   While

   A **funded debt** refers to the one with a long repayment / one with no stated future date / time for debt repayment.

   (b) Access the effects of government borrowing in the development of Uganda. (16marks)

Positive effects of public borrowing

- fills the foreign exchange gap. Public borrowing especially external debts are important in supplementing foreign exchange earnings of a country
- fills domestic savings gap. Public borrowing supplements domestic savings that can be low
- curbs inflation; borrowing from internal sources reduces money from the circulation leading to fall in aggregate demand
- saves people from unforeseen calamities/crisis such as floods and land slides
- **allows governments to spend more on public services and projects than they raise in taxes so as** to improve standards of living**.**
- It helps the government to cover budgetary deficits.
- promotes national savings as citizens buy government bonds.
- provides citizens the chance to earn interest.
- Provides funds to pay off a previous loan or debt servicing
- Stabilizes the balance of payment position by investing the borrowed funds in export oriented industries and production for domestic consumption to reduce the amount of imports.
- finances important but expensive projects such as dams and roads
- Improves international relationships
- It helps avoid depleting locally-available loans for private investment

Negative effects of public borrowing

- It encourages dependency / laziness.
- Undermines capital formation due to debt repayment
- It is inflationary i.e. a case with external borrowing
- Worsens the Balance of Payment (B.0.P) position
- Shifts the burden of debt repayment to the future generation who may not have benefited from the debt but pay it.
- Worsens income inequality
- Leads to manipulation of the country by foreigners
- Leads to misallocation of resources / extravagance /corruption
- Citizens are being burdened by taxes to raise revenue for debt repayment.
- External debt payment limits import capacity
- Undermines private investment due to public borrowing outcompeting private investment in both the money and capital markets
- Nationals are denied essential goods due to debt repayment.

Thank you

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