Economics paper 2 set 18 and marking guide

SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) What is meant by **explicit costs of production**? (01 mark)
   (ii) State three factors that influence production costs in Uganda. (03marks)
   (b)(i) Distinguish between external resource dependence and direct economic dependence (02marks)
   (ii) Mention two demerits of external resource dependence in Uganda. (02marks)
   (c) Give any four roles of education in economic development. (04marks)
   (d)(i) What is currency depreciation? (01mark)
   (ii) Outline any three effects of depreciation in currency in Uganda. (03marks)
   (e)(i) Distinguish between a public corporation and a multinational corporation (02marks)
   (ii) State two contributions of multinational corporations to economic development in Uganda (02marks)

SECTION B(80 marks)

Answer any four questions

2. (a) What are the cause of price fluctuations of agricultural products in Uganda (10marks)
   (b)Explain the measures that have been taken to minimize price fluctuations of agricultural products in Uganda (10marks)
3. (a) How is the expenditure method used to measure National Income in Uganda? (04marks)
   (b) Explain the challenges faced in measuring National Income in Uganda. (16marks)
4. (a) Examine the factors that influence the level of economic growth in Uganda. (10marks)
   (b) Describe the cost of economic growth in Uganda. (10marks)
5. (a) What is meant by the term full employment? (04marks)
   (b) Why is it difficult to attain full employment in Uganda? (16marks)
6. (a) Account for the persistent inflation in Uganda. (12marks)
   (b) Explain measures being taken to control inflation in Uganda. (08marks)
7. (a) Describe the different forms of government expenditure in Uganda. (06marks)
   (b) Suggest measures that may be taken to regulate public expenditure in Uganda. (14marks)

Guide

SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) What is meant by **explicit costs of production**? (01 mark)

Explicit costs are direct costs incurred by the firm during production process e.g. costs of labour, raw materials, power, water etc.

(ii) State three factors that influence production costs in Uganda. (03marks)

- The quantity of output produced/ the scale of production.
- The wage rate and the number of workers employed.
- The cost of raw material input/ the price of (raw materials) and quantity of raw material inputs employed.
- The interest rate and the amount of capital borrowed.
- The entrepreneurial ability.
- The rate of taxation/ the level of subsidization.
- The rent rate (and the area hired/rented)
- The cost of sales promotion/advertising.
- The cost of transport
- The price of (energy/and units of energy used (in production).
- The insurance premium.
- The techniques of production/ the efficiency of technology.
- The expenditure on acquisition and maintenance of technology.
- Level of accountability

(b)(i) Distinguish between external resource dependence and direct economic dependence (02marks)

External resource dependence refers to the reliance of an economy on factor inputs/resource/producer goods such as capital, skilled labour and technology from other countries for development/survival.

External resource dependence is the reliance of a country on foreign decisions

(ii) Mention two demerits of external resource dependence in Uganda. (02marks)

- balance of payment problems
- leads to underemployment and unemployment
- leads to cultural erosion
- stagnate the development of local technology
- leads to under utilization of local resources
- the economy is subjected to inappropriate and undesirable decisions
- leads to economic dominance of foreign economy
- leads to capital outflow in form of profits and salaries of expatriates
- discourages domestic saving and investment
- leads to increasing debt burden
- leads to political interference
- discourages innovation
- encourages laziness

(c) Give any four roles of education in economic development. (04marks)

- Provide skills/promotes literacy
- promotes development of entrepreneur skills
- promotes national integration/unity
- Promotes innovations and inventions
- provides revenue to the government
- promotes development of infrastructures
- promotes equitable resource distribution
- it controls population growth
- provides market to goods and services
- provides employment
- leads to development of industries for scholastic material
- promotes efficiency in production

(d)(i) What is currency depreciation? (01mark)

Currency depreciation is the fall in the value of local currency relative to other currencies due to forces of demand and supply in the currencies market

(ii) Outline any three effects of depreciation in currency in Uganda. (03marks)

- leads to inflation/rice in domestic prices
- makes project planning difficult
- erodes peoples' confidence in local currency
- worsens the external debt burden
- encourages foreign investment
- discourages local investment
- export gain higher profit
- encourages export and hence improves balance of payment position
- encourages speculation

(e)(i) Distinguish between a public corporation and a multinational corporation (02marks)

Public corporation is a business organization/enterprise in which government holds either all or majority of its share capital. (it is created by an act of parliament/government decree which clearly defines its aims and objectives).

Multi-national corporation is an enterprise/firm with/which has headquarter in one country but with branches/subsidiaries in many countries.

(ii) State two contributions of multinational corporations to economic development in Uganda (02marks)

- Filling the savings/investment gap.
- Filling the manpower gap
- Filling the technological gap/promoting technological transfer
- Filling the foreign exchange gap
- Increase government revenue through taxation.
- Create employment opportunities
- Utilize local resources hence avoidance of wastage
- Develop local skills through training
- Widen consumer choices through production of variety goods and service

- Efficiency of local firms through competition.
- Increased output hence economic growth
- Promote friendship between Uganda and other countries (diet mutual benefit) hence increased trade1and foreign aid
- Promote growth of the industrial sector.
- Promote development of infrastructure
- Increasing quality of output
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SECTION B(80 marks)

Answer any four questions

2. (a) What are the cause of price fluctuations of agricultural products in Uganda (10marks)

- **Perishability and difficulty of storage** this forces farmers to sell at any available price e.g. tomato, cabbage
- **Bulkiness of products** makes mobility of products to areas of high price difficult.
- **Long gestation period of agriculture products** restricts supply when prices are high.
- **Fluctuations of yield.** High yields leads to low prices and low yields lead to high prices
- **Low technology** limits value addition to increase demand
- **Technological advancement** in developed countries has promoted the raw material saving methods reducing demand for agricultural output.
- **Growing competition from synthetic substitutes**
- **Agricultural products are used as mere inputs industrial products** making absorption of excess supply leading to price instability.
- **The poorly planned production**
- **Dependence on natural factors** such climate for production that are not predictable
- **The price inelastic demand for agricultural product**s. a big change in price brings about a small change quantity demanded.
- **Weak bargaining position on world market;** prices of agricultural products are dictated by importers in MDCs.
- **Lack access to market information**
- **Speculations of demand**
- **Change in the import-export policy;**
- **Inflation**
- **Seasonal nature of demand for certain products;** such as flowers in celebration seasons.

(b)Explain the measures that have been taken to minimize price fluctuations of agricultural products in Uganda (10marks)

- **Buffer stocks.** The government should buy up part of the supply when output is in excess, store this surplus and later sells it to the consumer in times of reduced supply.
- **Stabilization fund**. The government through marketing boards can maintain or increase prices of agricultural products, depending on world market prices. If profits are made, they are saved and used to stabilize prices and incomes of the farmers.
- A variety of agricultural activities should be introduced e.g. crop farming, poultry, animal husbandry etc. to reduce over dependence on one or a few sources of agricultural income in a bid to stabilize farmers' income.
- **Encourage formation of cooperatives** to bargain fair prices
- Introduce irrigation schemes to ensure continuous supply of agricultural products.

- **Stability in prices of agriculture** can also be attained by improving transport system to enable easy marketing
- There is a need to improve, develop and expand storage facilities to accommodate excess output in agriculture.
- **Price control**. Government should establish the minimum and maximum prices for agricultural output.
- **Market expansion**. Government should expand agricultural output market through economic integrations

3. (a) How is the expenditure method used to measure National Income in Uganda? (04marks)

   This is done by summing up expenditure(s) on all final goods and services produced in the country (by households, firms and government) during a given time.
   It involves adding expenditure by households on consumption (C), expenditure by firms on investment (I), government expenditure (G) and net expenditure on exports **(X - M)**

   (b) Explain the challenges faced in measuring National Income in Uganda. (16marks)

- Limited data/limited information
- Double counting
- Difficulty in defining boundary of production
- Difficulty in valuing government output/services .
- Difficulty in valuing subsistence output1non- marketed output.
- Challenge of valuing unpaid for services/self-services.
- Difficulty in determining net income from abroad.
- Problem of inventories/difficulty in timing production.
- Price instability/price fluctuations
- Difficulty in determining depreciation
- Limited facilities
- Limited skills of statisticians/labour
- Problem of errors of omission and commission
- Problem of illegal activities

4. (a) Examine the factors that influence the level of economic growth in Uganda. (10marks)

- The skills of labour ·
- The entrepreneurial ability
- The level of infrastructural development
- The political atmosphere
- The market size
- The techniques of production/the level of technological development
- The land tenure system
- The rate of inflation/the degree of price stability/the exchange rate stability
- The existing (stock of) capital.
- The level of monetization of the economy
- The government policy of investment/the availability of incentives to investors.
- The population growth rate.
- · The level of savings
- The level of exploitation of resources.
- The level of accountability

- The degree of conservatism/cultural rigidities
- The attitude to work.

(b) Describe the cost of economic growth in Uganda. (10marks)

- Leads to unemployment (due to automation/technological development/collapse of firms
- Widens income (and wealth) disparities.
- Lead to decline in social and cultural values/cultural erosion/ leads to individualism.
- Leads to imbalance in regional development.
- Promotes rural-urban migration and its evils.
- High level occupational hazards
- Exhaustion of non-renewable resources due to over-exploitation
- Capital outflow.
- Increased/high dependence on external resources/debt burden.
- Low quality of output.
- Leisure time is sacrificed.
- It is leading to environmental degradation/pollution.
- Sacrifice of current consumption (in order to save for the future).

5. (a) What is meant by the term full employment? (04marks)

Full employment refers to a situation where all factors of production especially labour are fully utilized. It is also defined as a state where the labour force is fully utilized and the rate of unemployment is less than 2%.

Or

Full employment is the situation where all people who are available and searching for work can find a job at the prevailing remuneration rates and conditions.

(b) Why is it difficult to attain full employment in Uganda? (16marks)

- There is inadequate information about where jobs are; where jobs are advertised in newspapers most unemployed people fail to get this information because they cannot afford the papers
- Shortage of co-operant factors i.e. there could be availability of one factor ad less or scarcity of the other
- High population growth rate that does not match with employment creation. This makes proper planning for distribution of jobs very difficult.
- Rural-urban migration. This leads to urban unemployment creating gaps in rural areas.
- Seasonal employment where people are employed in one season and not in another such planting, weeding and harvesting in agriculture
- Immobility of factors of production. For example there exist plenty of land in some areas and lacking in some areas. Labour immobility may be due to family ties.
- Restriction of entry into certain jobs by trade unions e.g. due to age limit, language and experience
- Large private sector which tend to use less labour to maximize profit.

- Limited market for commodities produced which does not encourage expansion of businesses to use up labour.
- Employment of expatriates in preference to local people
- Lack necessary skills and education required by the job market
- Lack of value addition limiting job creation.
- Lack of value addition limiting job creation.
- Automation substitute employees
- Some people who are capable to work choose not to particularly if unemployment benefits are available.

6. (a) Account for the persistent inflation in Uganda. (12marks)

- Excessive (increase) in government expenditure.
- Excessive inflow of income from abroad/excessive inflow of capital with high finance component ·
- Rising: costs of production (e.g. rising wages, fuel prices)
- Natural hazards (leading to fall in supply from agriculture sector.
- Excessive issuance of currency
- Excessive/uncontrolled credit creation
- Break-down of infrastructure
- Greed for profits by traders
- Speculation (by traders and consumers).
- Unfavorable political climate
- Excessive exportation of essential goods/excessive demand for essential goods in the export markets.
- Falling value of the local currency relative to other currencies.
- Importation from countries experiencing inflation
- Excessive borrowing from the central bank

(b) Explain measures being taken to control inflation in Uganda. (08marks)

- Reducing government expenditure
- Increasing direct taxes/increasing taxes on incomes
- Developing infrastructure.
- Providing tax incentive s to investors
- Improving the political atmosphere
- Promoting the development of the industrial sector/undertaking import /substitution industrial strategy.
- Encouraging importation from cheaper sources.
- controlling issuance of currency
- Liberalizing the economy
- Modernizing the agriculture sector
- Controlling borrowing from the central bank
- Privatizing public enterprises

7. (a) Describe the different forms of government expenditure in Uganda. (06marks)

(i) Recurrent/consumption/operating expenditure is the day to day spending of government aimed at maintaining existing capacities,e.g.

- wages and salaries of civil servants

- rent
- rates
- interest on national debt
- contribution(s) to international organization

(ii) Development expenditure/capital expenditure is expenditure by government on capital goods/investment/establishing of projects to generate goods and services. Examples of development expenditures include

- setting up infrastructures
- establishing of productive projects such setting up public enterprises

(b) Suggest measures that may be taken to regulate public expenditure in Uganda. (14marks)

- Fighting corruption
- Privatize public enterprises
- Publicize and offer 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
- Avoid over-ambitious plans
- Restructure and rationalize foreign missions to reduce on expenditure on diplomacy
- Appeal for debt relief
- Reduce on public administration units and public servants

Thank you

Dr. Bbosa Science