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Economics paper 1 set 13 and marking guide

SECTION A

Answer all parts of this question.

1. (a) (i) State the law of supply (01mark)
(ii) Mention any three factors that cause a decrease in supply of goods in an economy. (03marks)
- (b). (i) What is a dual economy? (01mark)
(ii) State any three advantages of a dual economy. (03marks)
- (c) (i) What is meant by import substitution strategy of industrial development (01mark)
(ii) State any three disadvantages of adopting this strategy in developing countries (03marks)
- (d) (i) Distinguish between structural inflation and cost- push inflation(02marks)
(ii) give two causes of cost push inflation. (02marks)
- (e) (i) Distinguish between a deficit budget and a surplus budget (02 marks)
(ii) State any two reasons why a country may prepare a deficit budget. (02marks)

SECTION B

Answer any four questions from this section

2. (a) Explain the importance of computing national income in an economy. (10marks)
(b) Account for the low level of national income in developing countries. (10 marks)
3. (a) Distinguish between shut-down and breakeven point of a firm. (04 marks)
(b) Why may a firm continue operating even if its revenue does not cover the fixed costs? (16 marks)
4. (a) Why is there a need to stabilize prices of agricultural products in an economy? (08marks)
(b) Describe measures that should be adopted to stabilize prices of agricultural products in developing countries. (12 marks)
5. Study the table below and answer questions that follow:

Commodity	Base year prices 2010	Base year simple index	Current year prices 2023	weight
Sugar (kg)	1500	100	2100	4
Beans (kg)	300	100	450	3
Rice (kg)	1200	100	1500	2
Bread (½ kg)	1200	100	1800	1

- (a) Calculate

- (i) Simple price index (02marks)
- (ii) Average price index (02marks)
- (iii) Weighted price index for the year 2013 (02marks)
- (b) Explain the uses of price indices in an economy. (14 marks)
- 6. (a) Why it necessary to formulate an economic development plan in a country. (08 marks)
- (b) Explain the factors that limit successful implementation of economic development plans in developing countries. (12 marks)
- 7. (a) What is a parastatal organization. (02marks)
- (c) Describe the roles of parastatal organizations in an economy. (18marks)

Guide

SECTION A

Answer all parts of this question.

1. (a) (i) State the law of supply (01mark)

The law of supply states that the higher the price, the higher the quantity supplied of a commodity, and the lower the price the lower the quantity supplied other factors being constant/ceteris - paribus.

- (ii) Mention any three factors that cause a decrease in supply of goods in an economy. (03marks)

- A decline in the price of jointly supplied good/product
- Increase in price of a competitively supplied commodity
- A change in the objective of the producer from sales - revenue maximization to profit maximization
- Political atmosphere becoming unfavourable.
- Break down in infrastructure.
- Increase in the costs of production.
- Depreciation of capital / machines.
- A fall in efficiency of factors of production.
- A decrease in supply of factors of production / raw materials.
- Expectation of future price increase.
- Government policy on production becoming unfavourable for example increase in taxes and removal of subsidies.
- A decline/ fall in demand/ market for the product.
- A decline in technology.
- Gestation period becoming longer.
- Working conditions becoming unfavourable.
- Decrease in the number of producers/ exit of firms
- Natural factors becoming unfavourable for agriculture

- (b). (i) What is a dual economy? (01mark)

A dual economy is one where there is co-existence of two contrasting sectors / phenomenon / situations, one advanced / modern and the other backward / traditional or superior and the other inferior or one desirable and the other undesirable.

- (ii) State any three advantages of a dual economy. (03marks)

- government is awakened to its responsibility of providing utilities for the less developed regions
- government revenue through progressive taxes
- it provides impetus for research and planning to identify ways and means of development of economy
- it fosters mobility from traditional to modern sector
- it promotes diversification due to existence of firms in both formal and informal sector of economy
- increase employment both in formal and informal sector

(d) (i) What is meant by import substitution strategy of industrial development (01mark)

Import substitution strategy of industrial development refers to a strategy of establishing local or domestic industries to produce goods formerly imported.

Or

It is a strategy that involves establishing /encouraging the local manufacturing industries to produce goods which were previously / formerly imported

(ii) State any three disadvantages of adopting this strategy in developing countries

(03marks)

- Increased government expenditure to support such industries by way of subsidies and other concessions.
- Poor quality goods are produced due to limited competition.
- Firms operate at excess capacity due to limited market, capital etc.
- It subjects nationals to highly priced goods because firms tend to be high cost firms.
- It leads to rural - urban migration and its associated evils.
- It is associated with income and profit repatriation/ capital outflow where many industries are owned by foreign investors
- It is associated with social costs e.g. pollution.
- It leads to technological unemployment because of use of capital intensive techniques of production.
- It leads to irrational use of resources, hence quick depletion of resources.
- Limited variety of goods, hence limiting consumer choice.
- Management contracts are usually expensive to maintain due to use of foreign manpower.
- It leads to a fall in government revenue due to a decline in import duties in the short- run.
- It leads to retaliation by trading partners / beggar - my neighbor policy.
- Monopoly tendencies are promoted due to protectionism.
- It tends to concentrate on production of consumer goods at the expense of capital goods.
- It worsens balance of payments position of LCDs due to importation of highly priced inputs.

(e) (i) Distinguish between structural inflation and cost- push inflation(02marks)

Structural inflation refers to the persistent increase in the general price level due to supply rigidities / structural bottlenecks in the economy leading to a decline / fall in supply of goods and services.

Whereas

Cost push inflation is the persistent increase in the general price level that arises out of increase in the costs of production of goods and services.

(ii) give two causes of cost push inflation. (02marks)

- Rising costs (prices) of fuel/ power/ energy.
- Depreciation / devaluation of the local currency against foreign currencies.
- Rising costs (prices) of imported inputs / raw materials.
- Rising wages / salaries.
- Rising tax levels.
- Increase in transport costs.
- Rising cost of advertising/ sales promotion.
- Increasing costs of borrowing / interest rate.
- Rising costs of rent /storage facilities.

(f) (i) Distinguish between a deficit budget and a surplus budget (02 marks)

A deficit budget is one where government expected /estimated/ anticipated/ projected/ planned expenditure in a greater than the government planned/ anticipated/ expected revenue in a given financial year.

While

A surplus budget is one where the government expected/ planned/ anticipated / projected expenditure in a less than the government planned / anticipated / expected revenue in a given financial year.

(ii) State any two reasons why a country may prepare a deficit budget. (02marks)

- To increase aggregate demand and stimulate production in the economy.
- To close /cure a deflationary gap / slump / recession.
- To avoid negative effects associated with high taxation.
- To increase consumption by raising disposable income of the people (through, low taxes)/ improve people's welfare.
- To encourage investment.
- To win political support.
- Borrowing may be quicker and cheaper in raising funds.

SECTION B

Answer any four questions from this section

2. (a) Explain the importance of computing national income in an economy. (10marks)

- National income figures are useful for economic analysis and planning / research purpose.
- It is used to show the level of development / standard of living by way of per capital income.
- It is used to indicate the rate of economic growth and development.
- International agencies giving aid may require information about National income to see which sector they can aid.
- National income figures are used for international comparison e.g. standard of living between countries.
- It is used for comparison purposes overtime e.g. the standard of living within a country.
- It is used to show income distribution /resource distribution and helps on appropriate action to be taken.
- It helps to show the expenditure patterns within the country.
- It shows the structure of the economy and identifies weaknesses of the structure for future action/ it identifies leading sector / lagging sector.
- National income figures are used for taxation purposes.

- National income figures show the level of resource exploitation
- National income figures show the extent of a country's dependence on other economies.

(b) Account for the low level of national income in developing countries. (10 marks)

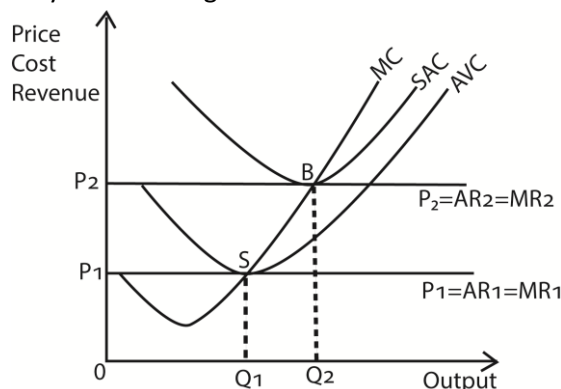
- Low levels of natural resources and exploitation.
- Small size of market, both local and foreign markets.
- Low levels of infrastructural development.
- Poor political climate /instability.
- Low levels of existing stock of capital/inadequate capital.
- Low levels of entrepreneurship ability
- High population growth rates.
- Existence of a large subsistence sector/ low levels of monetization.
- Low levels of skills of labour.
- Low levels of savings.
- High rates of inflation.
- Low levels of productivity of labour and other co-operant factors.
- Unfavourable government policy on investment e.g. high levels of taxation.
- Cultural factors e.g. conservatism.
- Low levels of technology.
- High levels of corruption
- Negative attitude towards work.
- High levels of dependence on foreign aid/ other countries/ negative foreign influence.
- Low levels of industrial development.

3. (a) Distinguish between shut-down and breakeven point of a firm. (04 marks)

A shut down point is a point below which a firm cannot covers its average variable costs (AR = AVC)

Break-even point is where a firm earns normal profit (AR = AC) i.e. a firm makes neither supernormal profit or losses

Or by use of a diagram



S = shut down point B = break-even point

(b) Why may a firm continue operating even if its revenue does not cover the fixed costs? (16 marks)

- When it is a beginner firm.
- When it hopes to change its management. When there is hope getting a bank loan. Fear of loss of market / good will / image. It may be a research unit/ firm.
- The high costs may be of seasonal nature.

- Fear of losing skilled labour force.
- May be hoping to merge with other firms.
- Fear of loss of source of raw materials.
- When it is a state owned firm offering essential services re the people.
- If it is a branch of industry with many profit making branches/ firms.
- Fear of high costs of depreciation /Re - opening/ Difficulty in disposing of fixed assets.
- Fear of losing contracts.
- May be choice of the owner i.e. not making profits.
- When the firm is able to cover operational costs | variable costs.
- Expectation/ hope of changing techniques of production.
- When it hopes to change the marketing techniques

4. (a) Why is there a need to stabilize prices of agricultural products in an economy? (08marks)

- To stabilize incomes of farmers.
- To stabilize balance of payments.
- For purposes of ensuring stable and government revenue from taxes.
- To ease the planning process.
- To control income inequalities.
- To stabilize foreign exchange earnings.
- To control rural - urban migration.
- As a means of minimizing unemployment.
- To stabilize the terms of trade.
- To discourage speculation in the agriculture.
- To ensure a stable exchange rate.
- To encourage investment in agriculture.
- To control structural inflation/ensure food security.
- To promote growth of the industrial sector by ensuring a steady supply / source of raw materials.

(b) Describe measures that should be adopted to stabilize prices of agricultural products in developing countries. (12 marks)

- Operation of buffer stocks where surplus output is bought by marketing boards during harvest / plenty and sold in periods of scarcity.
- Use of stabilizing fund policy.
- Improve on the storage system so as to stabilize supply.
- Improve on the transport / disposal system.
- Modernization of agriculture to produce better quality products and reduce its dependence on nature e.g. use of irrigation.
- Industrialization within Agriculture to add value to agricultural products.
- Adoption of strict quota system.
- Undertake market expansion and diversification.
- Strengthen / join international commodity agreements.
- Price control by the government by use of minimum price legislation.
- Stabilize costs of production through subsidization of the farmers.
- Encourage proper planning of production.
- Educate / sensitize farmers about price fluctuations.
- Encourage co-operatives to regulate supply.
- Agricultural diversification
- Use of contract / future market arrangements

5. Study the table below and answer questions that follow:

Commodity	Base year prices 2010	Base year simple index	Current year prices 2023	weight
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Rice (kg)	1200	100	1500	2
Bread (½ kg)	1200	100	1800	1

(a) Calculate

(i) Simple price index (02marks)

$$\text{Simple price index (SPI)} = \frac{\text{Price of item in current year}}{\text{Price of item in base year}} \times 100$$

$$\text{Sugar : SPI} = \frac{2100}{1500} \times 100 = 140$$

$$\text{Beans: SPI} = \frac{450}{300} \times 100 = 150$$

$$\text{Rice: SPI} = \frac{1500}{1200} \times 100 = 125$$

$$\text{Bread: SPI} = \frac{1800}{1200} \times 100 = 150$$

(ii) Average price index (02marks)

$$\begin{aligned} \text{Average price index} &= \frac{\text{summation of price relativrs}}{\text{number of commodities}} = \frac{\sum PR}{n} \\ &= \frac{140+150+125+150}{4} = 141.25 \end{aligned}$$

(iii) Weighted price index for the year 2013 (02marks)

$$WPI = \frac{\sum PR \times W}{\sum W} = \frac{140 \times 4 + 150 \times 3 + 125 \times 2 + 150 \times 1}{4 + 3 + 2 + 1} = \frac{1410}{10} = 141$$

(b) Explain the uses of price indices in an economy. (14 marks)

- They are used in measuring changes in the value of money i.e. whether there was inflation or deflation.
- They are used in wage determination/ pension.
- They are used in determining tax rates.
- They help in deflation of normal income so as to obtain real national income.
- They help in comparing the cost of living of the people.
- They help in comparing the cost of living between countries.
- They are used to measure to the terms of trade of a country.
- They help in determination of interest rate.
- They help in determines the cost of living in the country

6. (a) Why it necessary to formulate an economic development plan in a country. (08 marks)

- For proper allocation of scarce resources.
- For equitable redistribution of income I wealth.
- To correct the deficiencies of price mechanism.
- To solve the unemployment pblem / contr I unemployment.

- For resource mobilization e.g. borrowing.
- To relate the present to future trends and targets.
- To identify areas suitable for public and private investment.
- For harmonious and consistent use of resource.
- To encourage public participation in the development process / solicit for political support.
- To attain price stability by influencing production levels.
- To correct balance of payments problems.
- To solicit for foreign aid/ assistance from development partners.
- To determine the rate of economic growth and development.
- To reduce economic dependence/ promote self- sufficiency.

(b) Explain the factors that limit successful implementation of economic development plans in developing countries. (12 marks)

- Inadequate funds.
- Inadequate necessary statistical data I information.
- Non- responsive growing private sector.
- Natural calamities.
- Limited support/ good will by the people I conservatism i poor altitude/ cultural limitations.
- Political instability.
- Inefficient implementation machinery/ limited skilled labour/ sabotage.
- Interference by politicians / government.
- Plans being too ambitious i.e. far beyond the means.
- Corruption on the part of plan formulations and implementation.
- High rate of inflation.
- Dependence on foreign aid which is inadequate, inconsistent, uncertain, tied etc.
- High population growth rates.
- Poor coordination of plans between plan formulators and implementers.
- Poor infrastructure.

NOTE: for a candidate to score maximum points, he/she must mention the point and then explain it

7. (a) What is a parastatal organization? (02marks)

A parastatal organization is a state owned enterprise / firm set up by the Act of Parliament/government decree to can-y out specific functions/ activities without putting much emphasis on profit.

(b) Describe the roles of parastatal organizations in an economy. (18marks)

- Creation of employment opportunities to the people.
- Development of infrastructure .
- Raising large capital and thus undertaking large scale operations.
- Promoting economic growth and development i.e. they are development oriented.
- Provision of essential service to the public at affordable rates / prices.
- Avoiding foreign domination of the economy.
- Undertaking strategic investments / projects of national interest/ importance.
- Provision of non - profitable but essential goods and services to the public e.g. garbage collection.
- Raising revenue for the government.
- Ensuring consumer protection against undesirable products.

- Controlling private monopoly.
- Ensuring fair distribution of resources for balanced economic growth and development.
- Mobilization of savings from the public.
- Ensuring price and income stability.
- Promotion of investment.
- Facilitate development of skills through training.
- Reduce wastage by controlling duplication of activities/services.

Thank you

Dr. Bbosa Science