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Economics paper 1 set 15 and marking guide

SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) Differentiate between perfect oligopoly and imperfect oligopoly. (02marks)
(ii) Give any two advantages of oligopolistic markets to a consumer. (02marks)
(b)(i) State the Big-push theory of economic development. (01mark)
(ii) Give three factors that may limit the adoption of the Big-push strategy in developing countries. (03marks)
- (c) (i) Distinguish between elasticity of demand and price elasticity of demand. (02marks)
(ii) State two factors that determine elasticity of demand. (02marks)
- (d) State four functions of money in an economy. (04marks)
- (e) (i) Distinguish between nationalization and privatization in an economy. (02marks)
(ii) Give any two merits of privatization in an economy. (02marks)

SECTION B (80 marks)

Answer any four of this section

2. (a) Describe three approaches to the computation of national income. (06 marks)
(b) Explain the computation of national income? (14 marks)
3. (a) Define the term foreign aid. (02marks)
(b) Assess the impact of foreign aid on developing economies. (18 marks)
4. (a) Distinguish between efficiency of labour and mobility of labour. (04marks)
(b) Explain the factors that determine the efficiency of labour in an economy (16marks)
5. (a) What are the causes of youth unemployment in developing countries? (10marks)
(b) Assess the impact of unemployment in an economy. (10 marks)
6. (a) What is meant by the term floating exchange rate? (04 marks)
(b) Examine the merits and demerits of floating exchange rate in an economy. (16marks)
7. (a) Differentiate between hyperinflation and creeping inflation (04 marks)
(b) Explain the effects of inflation in an economy. (16marks)

Guides

SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) Differentiate between perfect oligopoly and imperfect oligopoly. (02marks)

Perfect Oligopoly is a market situation where there are few firms /producers/ sellers in the industry dealing in **homogeneous** products.

Imperfect oligopoly is a market situation where there are few firms/producers/sellers in the industry dealing in **differentiated** products

- (ii) Give any two advantages of oligopolistic markets **to a consumer**. (02marks)

- Low prices
- Eases customers budgeting due to stable prices
- Widens customers choices due to production of wide variety of good

- Production of high quality goods due to competition
- Consumers benefit from non-price competition e.g. after sales services

(b)(i) State the Big-push theory of economic development. (01mark)

The Big push theory states that for a backward economy (i.e. LDC) to take off into self-sustained growth, a **massive** investment program in industries and economic infrastructure is required.

(ii) Give three factors that may limit the adoption of the Big-push strategy in developing countries. (03marks)

- Limited capital
- Limited skills /Education and training
- Small markets
- Poor technology
- Limited basic infrastructure
- Poor investment climate - high taxes. limited subsidization
- Poor land tenure system
- Corruption/poor accountability
- Political instability Conservatism
- Limited Entrepreneurial skills
- Weak implementation machinery/poor planning

(c) (i) Distinguish between elasticity of demand and price elasticity of demand. (02marks)

Elastic of demand is the measure of the degree of responsiveness of quantity demanded of a commodity to changes in the factors that affect demand.

Or

Elastic of demand is the proportionate change in quantity demanded of a commodity to proportionate change in the factors that affect its demand.

Whereas

Price elasticity of demand is the degree of responsiveness of quantity demanded of a commodity to changes in its price.

Or

It is the proportionate/percentage change in the quantity demanded of a commodity to proportionate/percentage change in its price

(ii) State two factors that determine elasticity of demand. (02marks)

- Nature of the product
- Availability of substitutes
- The number of users of a product
- Availability of complements
- Proportion of income spent on the commodity
- Level of income of the consumer
- Degree of necessity of the commodity
- Level of addiction in the use of the commodity
- Level of durability of commodity/nature of commodity
- The time period-short run/long run
- Speculation/expectation of price change
- Advertisement/level of awareness about a commodity.

(d) State four functions of money in an economy. (04marks)

- Money is a unit of account.
- Money is a medium of exchange.

- Money is a standard measure of value.
- Money is a standard measure of deferred payments (future payments).
- Money is a store of value or wealth.
- Money helps in the planning process and budgeting.
- Money serves as a tool which the government uses in monetary policy.
- Money facilitates one way payments.
- Money makes it possible for price mechanism to operate since prices are determined in monetary terms.

(e) (i) Distinguish between nationalization and privatization in an economy. (02marks)

Nationalization of enterprises is the taking over by the state, of ownership of enterprises formerly privately owned:

While

Privatization of enterprises is the transfer of ownership of public/state enterprises to individuals/private investors

(ii) Give any two merits of privatization in an economy. (02marks)

- increases output hence economic growth Increases government revenue
- Widens consumer choices due to production or variety
- Reduces government expenditure
- Reduces dependence on imports Reduces corruption in the enterprises
- Improves quality of output
- increases job opportunities in [he long run
- Improves skills
- Increases job opportunities in the long run
- Improves skills
- increases investment by foreigners who buy public the enterprise
- Reduces bureaucracy in the enterprises /Red tape
- Increases innovations and invention;
- Improves international relations
- Reduces inflation rate through increased production
- Improves /increases efficiency in resource allocation

SECTION B (80 marks)

Answer any four of this section

2. (a) Describe three approaches to the computation of national income. (06 marks)

Output/product/value added approach

It involves summing up the contributions (value added) of all firms or sectors at each stage of production of final goods and services in the economy. This is done in order to avoid double counting. Value added is the contribution made to the value of the final product at each stage in the production process

Income approach

Here the incomes received by factors of production are added. Such incomes include rent, salaries, wages, interest and profits in a given period usually a year.

National income = wages (w) + rent(r) + interest (i) + profits (p)

Expenditure approach

Here we add up the value spending on all final goods and services. Such expenditures include

consumption, investment, government expenditure and net exports in a given period usually a year

(b) What are the statistical challenges faced during the computation of national income? (14 marks)

- Inadequate statistical data/information
- Problem of double counting
- Difficulty of calculating the value of capital depreciation
- Difficulty of valuing subsistence /Non - marketed output
- Difficulty of calculating net incomes from abroad
- Difficulty of valuing government services/expenditure.
- Problem of price changes i.e. inflation/deflation
- Problem of valuing unpaid for services
- Statistical errors i.e. omissions and commissions.
- Problem of valuing inventories and work in progress
- Limited skilled man power and equipment

3. (a) Define the term foreign aid. (02marks)

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

(b) Assess the impact of foreign aid on developing economies. (18 marks)

Positive impact/Benefits of foreign aid

- Closing the saving - investment gap
- Closing the foreign exchange gap/inflow of foreign exchange.
- Closing the technological gap / leads to technological transfer
- Fills the government-revenue expenditure gap / source of government revenue through borrowing, grant etc.
- Fills the (skilled) manpower gap | 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.

4. (a) Distinguish between efficiency of labour and mobility of labour. (04marks)

Efficiency of labour is the measure of the quantity and quality of output that a unit of labour can produce within a given period of time.

OR

Efficiency of labour is the ability of labour to achieve greater output in a shorter time, without any decline in the quality of work/ output

Labour mobility is the ability/degree/ease with which labour moves either geographically or occupationally.

(b) Explain the factors that determine the efficiency of labour in an economy (16marks)

- The degree of specialization
- Level of skills/technical knowledge
- The working conditions
- level of technology
- level of education
- The health conditions of a worker
- Degree of expertise
- Workers attitude and level of commitment towards work
- Availability of fringe benefits offered
- Motivation and Incentives/ Wage level
- Resourcefulness of a worker,
- Sense of responsibility/judgement of a worker
- age
- disability
- weather conditions for instance hot weather reduces ability to work on a farm
- Availability of technology and other equipment: High technology will increase the efficiency of Labour.
- Efficiency management
- Security of job
- political stability

5. (a) What are the causes of youth unemployment in developing countries? (10marks)

- Technological progress and increased use of capital intensive methods
- Changes in seasons especially in agriculture/changes in climatic conditions
- Unfavourable changes in tastes/limited
- Markets/fall in demand/falling prices.
- Poor land tenure system
- Poor education system/inappropriate education limited skills
- Rural-urban migration causing open urban unemployment
- Rapid population growth rates compared to job creation.
- Discrimination in the labour market based on sex, age etc.
- Poor attitudes towards work/laziness
- Structural adjustment Programs e.g. Retrench merit, privatization
- Limited co-operant factors e.g. capital, land etc.

- Physical and mental incapacitation causing residual unemployment
- Ignorance of job opportunities
- Political instability
- Changing jobs, causing frictional/casual unemployment
- Poor manpower planning causing excess labour supply in some sectors
- Immobility of labour occupationally or geographically

(b) Assess the impact of unemployment in an economy. (10 marks)

- decline in the level of skill acquisition
- increased dependence burden
- low government revenue
- brain drainage
- low aggregate demand for goods and services
- worsen income inequality
- leads to social evils such as alcoholism
- leads to brain drain
- underutilization of resource
- low standards of living
- cause political tension/unrest
- discourage investment
- encourage rural-urban migration

6. (a) What is meant by the term managed floating exchange rate? (04 marks)

Flexible, managed or floating exchange rate is where the rate of domestic currency in terms of other currencies is determined by the dynamics of market demand and supply.

(b) Examine the merits and demerits of floating exchange rate in an economy. (16marks)

Advantages/Merits of a managed floating Exchange rate

- It ensures that there is a favourable exchange rate in the foreign exchange market
- It controls actions of speculators
- Monetary authority can still maintain control of the exchange rate
- Helps correct balance of payment
- Floating exchange rate currencies can be traded without any restrictions/ promotes international trade due to easy access to foreign exchange
- It encourages more foreign exchange inflows
- It is automatic mechanism for correcting trade imbalance
- Promotes investment
- Limits illegal foreign exchange trade
- Lower Reserves: For a floating exchange rate, central banks are not required to keep large foreign currency reserve amounts for defending the exchange rate.
- No import inflation
- Flexible
- Independence: Freely floating exchange rates allow the governments and central banks of a nation to have a great degree of independence
- Lack of policy constraints- the government are free with a floating exchange rate system to pursue the policies they feel are appropriate for the domestic economy without worrying about them conflicting with their external policy.

- Can be a useful absorber when there is an external economic shock – for example, a currency might depreciate in recession giving a lift in export industry

Demerits of a managed floating exchange rate

- It leads to uncertainty in forex market
- It encourages speculation
- It leads to inflations
- It leads to fluctuation of foreign exchange earnings.
- Lack of Investment: The uncertainty introduced by floating exchange rates may discourage direct foreign investment (i.e., investment by multinational companies).
- May lead to crisis: there is a possibility that with a floating exchange rate such short-run problems as domestic inflation may be ignored until they have created crisis situations.
- May lead to instability of prices

7. (a) Differentiate between hyperinflation and creeping inflation (04 marks)

Hyperinflation is a persistent increase in the general price levels at high/fast rate (i.e. over 10% per annum)

(b) Explain the effects of inflation in an economy. (16marks)

Positive effects/advantages/merits of inflation in Uganda

- increased government revenue
- encourage/stimulates investment
- encourage entrepreneur skill
- promotes hard working
- increased level of industrialization/import substitution industrialization
- leads to increased labour supply
- increased utilization of idle resources
- debtor gain
- promotes commercialization/monetization economy
- encourages labour mobility

Negative effects/disadvantages/demerits of inflation in Uganda

- discourage saving
- discourage investment
- worsen balance of payment position
- promotes tax evasion/reduced government revenue
- promotes speculation
- reduce real income for low salary earner
- encourage production of low quality goods
- make planning difficult
- lead to loss of confidence in local currency
- promote social vices such as immorality/crime
- lead to brain drain
- encourages income inequality

- discourages lending as creditors (lenders) get less in real terms
- leads to unemployment as some firms close.
- Government becomes unpopular
- Low standards of living

Thank you

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