



Dr. Blosa Science

Sponsored by
The Science Foundation College
Uganda East Africa
Senior one to senior six
+256 778 633 682, 753 802709
Based On, best for science

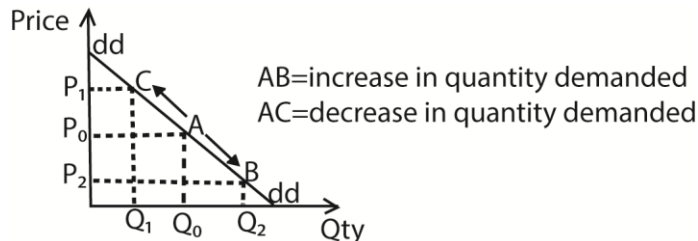
digitalteachers.co.ug



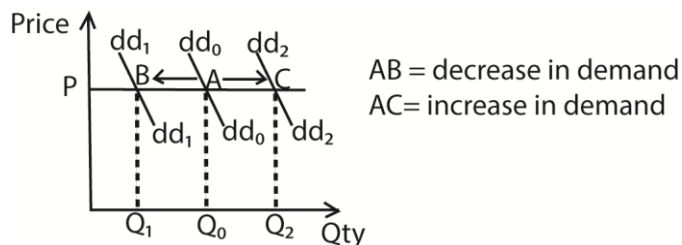
Economics paper 1 set 6 and marking guide

1(a) (i) Differentiate between a change in quantity demanded and change in demand.

A change in quantity demanded refers to **a change in the specific quantity of a product that buyers are willing and able to buy** due to a change in the price.



A change in demand describes **a shift in consumer desire to purchase a particular good or service, irrespective of a variation in its price**. The change could be triggered by a shift in income levels, consumer tastes, or a different price being charged for a related product.



(ii) State two factors that lead to change in demand

- **Income:** How much consumers have to spend.
- **Consumer preferences:** What types of products are popular at any given moment.
- **Buyer expectations/speculation:** Does the consumer expect the price to rise in the future, perhaps due to limited supply?
- **Price:** How much does the good or service cost?
- **Prices of related items:** Are there any substitute goods or services of similar value that cost a lot less?
- **Change in season**
- **Change in government policy i.e. taxation and subsidization.**

(b) State main features of free trade

- Profit maximization
- Consumer sovereignty

- Limited government intervention
- There is private ownership of property
- Freedom of choice and enterprise.

(c) Distinguish between

(i) Pure competition and perfect competition

Pure competition is a marketing situation characterized by

- Large number of buyers and sellers
- All firms sell an identical product (the product is a commodity or homogeneous).
- All firms are price takers (they cannot influence the market price of their products).
- Market share has no influence on prices.
- Firms can enter or exit the market without cost.
- No transport costs
- No government intervention.

Perfect competition is a market structure characterized by

- Large number of buyers and sellers
- All firms sell an identical product (the product is a commodity or homogeneous).
- All firms are price takers (they cannot influence the market price of their products).
- Market share has no influence on prices.
- Firms can enter or exit the market without cost.
- No transport costs
- No government intervention.
- **Buyers have complete or perfect information (in the past, present, and future) about the product being sold and the prices charged by each firm.**
- **Capital resources and labour are perfectly mobile.**

NB. The last two characteristics distinguish perfect competition from pure competition

(ii) Monopoly and monopolistic competition

Monopoly refers to a market structure where there is a single seller/producer of a product which does not have close substitutes e.g. Uganda National Examination Board (UNEBC), UMEME

Monopolistic competition is a market where many companies offer competing products or services that are similar, but not perfect, substitutes.

Or

Monopolistic competition is a type of imperfect competition such that there are many producers competing against each other, but selling products that are differentiated from one another and hence are not perfect substitutes.

Examples of monopolistic competition

1. **Grocery stores:** Grocery stores exist within a monopolistic market as there are a large number of firms that sell many of the same goods but with distinct branding and marketing.

2. **Hotels:** Hotels offer a prime example of monopolistic competition. Each hotel company offers a similar service with slight variations in pricing and quality levels.
3. **Clothing stores:** Another example of a large number of firms competing for market share, general clothing stores offer differentiated products that are typically very similar.

(d) Differentiate between transfer earnings and economic rent in relation to land as a factor of production

Transfer earning in relation to land are the rewards to land that is enough to keep it in its present use.

Economic rent of land is the additional reward/payment over and above what is required to keep it in its present use or it a reward over the its transfer earning.

(e) Country Z has an increase in the level of investment from USD 2m to USD 2.4m which led to an increase in income from USD 150m to USD 225m. calculate the investment multiplier in an economy

$$\text{Investment multiplier} = \frac{\text{change in income}}{\text{change in investment}} = \frac{225 - 150}{2.4 - 2} = \frac{75}{0.4} = 187.5$$

(f) what is meant by the following terms?

(i) Net property income from abroad

Net income from abroad is the difference between the total values of the primary incomes receivable from, and payable to, non-residents in a given period of time

Or

Net factor income from abroad= Factor income earned by our residents from the rest of the world - Factor income earned by non- residents in our domestic territory.

Or

Net factor income from abroad refers to the difference between the factor income received from the rest of the world and the factor Income paid to the rest of the world.

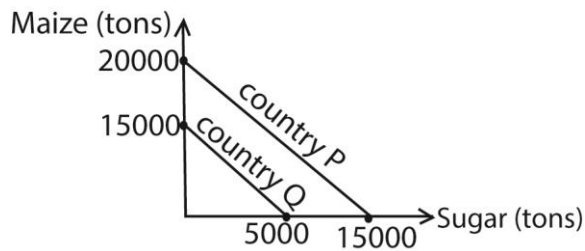
(ii) Net national income

Net national income (NNI) is defined as gross national income minus the depreciation of fixed capital assets (dwellings, buildings, machinery, transport equipment and physical infrastructure) through wear and tear and obsolescence per year

Or

Net National income is the monetary sum of flow of goods and service in a country per year less depreciation.

(g) Study the figure showing two production possibilities frontiers (PPF) for countries P and Q and answer the questions that follow:



(i) What principle of cost in international trade is illustrated by the frontiers?

The principle of cost is absolute cost advantage

(ii) In which commodity should country P specialize? Illustrate your answer.

Country P should specialize in sugar production because it incurs less real cost in production of sugar than maize

$$\text{The opportunity cost of sugar} = \frac{1500}{20000} = 0.75$$

$$\text{The opportunity cost in maize} = \frac{20000}{1500} = 1.33$$

(h) Distinguish between:

(i) Macro-planning and project planning

Macro planning refers to planning by central authority for the economy as a whole which can be short term, medium term or long term.

Project planning is planning aimed at particular sector e.g. individual project such as a road construction, power extension etc.

(ii) Partial plan and comprehensive plan

Partial plan is a plan drawn and sets its targets to cover only part of the economy e.g. agriculture only, industry only, etc.

Comprehensive plan is a plan that sets its targets to cover all major sectors of the economy e.g. private and public sectors, economic and social sectors.

(i) Distinguish between

(i) A specific tax and an ad valorem tax

A **specific tax** is a tax levied on each unit of a commodity produced e.g. 50/+ on each bar of soap while **ad valorem tax** is a tax levied on a commodity basing on its value.

(ii) Taxable capacity and incidence of tax

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.

Or

Taxable Capacity means the maximum capacity of the people of a country to bear the burden of taxation without much hardship

A tax incidence is an economic concept that describes who ultimately pays the cost of a tax, beyond the actual fees

A tax incident refers to the final resting place of a tax i.e. the person or any entity that finally bears the burden of a tax.

(j) Mention four demerits of nationalization of firms

- **Low productivity and inefficiency:** Due to the fact that government businesses are usually poorly managed, most nationalized businesses by the government end up being mismanagement and that reduces efficiency of the business.
- **Prevention of private initiatives:** When government takes over private business, there is every likelihood that private initiatives will also decrease. This can also be due to lack of competition.
- **Consumers can be exploited:** Even though nationalization is supposed to be with the aim of not making profit that does not mean that the government cannot exploit the citizens. In many cases, even after nationalization, citizens are still exploited by the government.
- **Corruption and mismanagement:** As usual, there is always a high rate of corruption in businesses owned and managed by the government. Thus, nationalization may not be a good idea for a nation where majority of politicians are corrupt by nature.
- **Political interference:** When a business becomes owned and managed by the government, there is usually political interference and that may lead to misallocation of resources.
- **Increased government expenditure** on subsidies and compensation.
- **Loss of government popularity.**

2(a) Examine the causes of income inequality in your country

Causes of income inequality in Uganda

- **Difference in talents** (natural ability) those who are naturally talented e.g. footballers, musicians usually earn higher incomes than their counterparts that are not talented.
- **Differences in resource endowment.** Places rich in productive resources usually earn more than others
- **Differences in opportunities:** people with good paying jobs earn more than others with low paying jobs
- **Level of education and training;** highly educated and well- trained people tend to earn more than those with low education and training e.g. Doctors versus nurses.
- **Differences in physical and mental abilities;** the mentally sound and physically strong tend to have ability and willingness to work and hence have higher incomes compared to those that are insane and physically weak
- **Differences in age, sex, tribe and race;** labour discrimination is based on these factors to determine individual income.
- **Inheritance;** those from rich families inherit and get rich unlike those from poor families.

- **Differences in wages;** some people earn higher wages compared to others
- **Differences in infrastructure distribution.** Area with even distribution of infrastructure tend to have high productivity hence higher incomes than others with under developed infrastructures
- **Differences in mobility of factors of production;** mobile factors of production can easily move from areas of low payment to areas of high wages unlike immobile factors of production.
- **Political stability;** areas that are politically stable attract investment than those that are unstable.
- **Influence of trade unions.** Strong and sound trade unions agitate for favorable conditions of work.
- **Government policy;** government tend to favor some parts of the country when allocating resources. These get higher incomes
- **Poor land tenure system;** land is not evenly distributed making those with land to produce and earn income than those without.
- **Globalization** – Lesser-skilled Ugandan workers have been losing ground in the face of competition from workers in Asia and neighboring countries.
- **Skills** – The rapid pace of progress in information technology has increased the relative demand for higher-skilled workers.
- **Social norms** – CEO pay is very much higher than a normal worker

(b) What are the demerits of Income inequality?

- **Rural-urban migration** in search of better pay.
- Worsen dependency burden: majority of the poor depend on the rich for sustenance.
- **Limits domestic market;** a situation where the majority are poor; they tend to have high MPC and low saving and investment reducing productivity.
- There is **over exploitation** of the poor by the rich.
- **Loss of human capital** through brain drainage
- **Misallocation of resources** in the country where most productive resources are channeled towards the production of luxuries for the rich leaving the poor with no essential goods.
- **Encourage social evils** such as prostitution and theft by the poor for survival.
- **Government revenue** is reduced especially where the majority are poor.
- **Government planning** is made difficult because income brackets have different needs.
- **Social tension** between the rich and the poor.
- **Viscous circle of poverty** arises in the poor communities
- **higher crime rates,**
- **poorer public health,** Living in an unequal society causes stress and status anxiety, which may damage your health. In more equal societies people live longer, are less likely to be mentally ill or obese and there are lower rates of infant mortality.
- **lower average education levels.**

3(a) Distinguish between balanced growth and unbalanced growth strategies

Balanced growth is the strategy that stresses simultaneous and coordinated development of all sectors of the economy so that they complement each other and grow at more or less the same level.

Unbalanced growth strategy is a strategy that recommends investment in one or few vital sectors of economy.

(b) What growth strategy would you recommend for your country? Give reasons to support your answer.

Reasons to support balanced growth strategy

- **Balanced Regional Development;** simultaneous development of all sectors are most likely to lead balanced growth of all parts of the country
- **Innovations and Research:** This theory encourages innovations and researches in different fields of the economy
-
- **Economies of scale** can be generated both internal and external over and above increasing national output.
- **Specialization** is encouraged and this increases labour productivity and acquisition of the required skills.
- **Diversification.** A variety of economic activities from different sectors of economy is stimulated.
- **Infrastructure development;** Balanced growth goes hand in hand with growth of infrastructure such as transportation, power, banking etc. This further encourages investment in human capital and material capital, which is the fundamental principle of balanced growth.
- Market expansion. The balanced development will create external economies. The benefits created in one sector will push investment in the other sector and will provide boost to the new industries from the existing industries. E.g. agriculture provide raw materials to industrial sector, while industry provides the input for agricultural sector.
- Balanced growth makes the possibility of **better use of natural resources** in a region.
- **It reduces dependency and promotes self-reliance** because growth of all sectors in the economy are encouraged and production of import substitutes.
- **It leads to fair balance of payment position** of the country as it tends to encourage foreign capital inflows from export and foreign investments, and reduced foreign capital outflow on imports.
- **Employment opportunity increases** due to stimulated investment.
- Increased income among the workforce is likely, as well as the demand for goods and services from various productive sectors of the economy.
- Forward and backward linkages in production are encouraged through inter-sectoral linkages.

Arguments for unbalanced growth

- **It promotes efficient utilization of limited resources** like capital and manpower.
- **Encourages development of** skills in the selected development sectors.
- **Self-reliance** through prioritizing the development of leading sectors which accelerate the high rate of capital investment
- **More Practical and realistic:** The unbalanced growth provides practical utility for the planners. The theory stresses upon the creation of those industries which have maximum total linkage.
- **Better-Use of Resources:** since a country makes use of its resources according to its needs and ability. And often depends on availability of domestic resources.
-
- It encourages decentralized decisions making and planning in the identification of the possible developmental resources such as capital.
- It encourages innovations in the selected sectors for development.

- It increases international trade on the basis of comparative advantage.
- The strategy is instrumental in the promotion and encouragement of local entrepreneurial abilities and competences.
- The limited market in the country does not require the need to adopt balanced growth strategy.
- It promotes and accelerates the process of industrialization through forward and backward linkages in production.
- Employment opportunities can be generated, as strategic economic sectors expand substantially.
- The present day developed countries depend on certain leading sectors to develop their economy.

4(a) Examine the structure of industries in your country.

In Uganda;

- Most industries process primary products , a few engage in the manufacturing and assembling parts e.g. Spear motors and BATA shoe firms
- Most industries are concentrated in urban areas especially, Kampala, Jinja, Mbale, Mbarara etc.
- The size of the industrial sector in Uganda is small but fast growing at fast rate. The small scale industries are widely spread i.e. urban and rural based e.g. agriculture processing industries like maize mill and sugar jugglingeries.
- Most of the industries in Uganda are engaged in the processing of primary products although some participate in finished goods.
- Most of the small and medium scale industries are privately owned while large scale industries are owned by foreigners and/or government.
- Most of the industrial products are locally consumed.
- The manufacturing industries contribute less than 10% to GDP.
- They provide employment to few skilled and unskilled manpower because of their small scale production and capital intensive technology.
- Most of the industries operate at excess capacity due to limited market of the products.
- Most industries depend on agriculture and mineral products and others such as pharmaceutical industries depend on imported raw materials.
- Most of small scale industries tend to be labour intensive while large scale industries tend to be capital intensive.

(b) Discuss the effects of such an industrial structure on economy.

Positive implications

- Creates jobs in the country
- Promotes innovation, and technological advancement
- Leads development of infrastructures such as roads and power distribution.
- Promotes scientific research
- Provision of a wide range of commodities. The existence of both processing and manufacturing industries tend to produce diversity of products
- Increases government revenue through taxed to the firm and salaries of employees.
- Encourage development of skills such as managerial skills.
- Minimize rural—urban migrations especially those located in rural areas.
- Sources of foreign exchange from exports

- Provision markets to raw materials especially agricultural produces.
- Strengthening international relations due to free participation of foreigners.

Negative implications

- Profit repatriation since most of the medium and large industries are owned by foreigners
- Encourage rural-urban migration since most of the industries are located in urban areas.
- Increased social costs such as pollution, noise, etc.
- Limits capital accumulation since most small and medium industries produce consumer goods.
- Increases the external resource dependence on imported raw materials and machinery.
- Accelerate unemployment problem since large-scale industries are capital intensive.
- Promote regional unbalanced development because most industries are concentrated in urban areas
- Promote income inequality because only minority of the population is engaged highly paying industrial sector leaving most population in a poorly paying agricultural sector.

5(a) Distinguish between unemployment and under employment (4marks)

Unemployment is a situation where a person is able and willing to work at an acceptable wage rate but cannot find a job.

Under employment is a situation where the person is working, below the full extent of their abilities, skills, or qualifications. Or it refers to underutilization of resources in an economy

(b) To what extent is the Keynesian theory of unemployment applicable to the economies of the developing countries? (16marks)

NB. Keynes argued that **inadequate overall demand could lead to prolonged periods of high unemployment.**

To a greater extent, this theory is irrelevant to developing countries

- **It is one sided** i.e. it is mainly concerned with demand deficiency yet unemployment in LDCs is basically from supply side hence inapplicable.
- **It assumes full employment.** The theory is only applicable under conditions of full employment of resources, which condition do not exist in LDCs since there is excess capacity.
- **It considers industrialized economies.** The theory is mainly concerned with industrialized economies like Britain and yet LDCs are agrarian economies.
- **It can be inflationary.** As a solution to unemployment, Keynes prescribes policies, which raise the levels of aggregate demand such as increase in money supply which is always inflationary.
- **The theory is based on a highly monetized industrial economy.** LDCs are basically subsistence where production is intended for producer's own consumption.
- **The theory is drawn basing on the existence of a strong private sector** in LDCs is weak.
- **The theory is based on a well-functioning product, money and factor markets** which is not the case in LDCs.
- **The theory is based on assumption that firms respond quickly and effectively to change in demand.** Firms in LDCs due to structural difficulties tend not to respond quickly and effectively to demand.

- **Keynes based his theory on investment** multiplier as a major contributor to employment. In LDCs, it is export multiplier that contributes more employment than investment multiplier.
- **The theory of unemployment was based on a closed economy.** LDCs economies are open in that they have trade interactions with others.

However to small extent the Keynesian theory is relevant in LDCs

- In LDCs, the element of industrialization exist, hence the theory applies.
- Use of **expansionary monetary policies** increase purchasing power has tended to increase employment level in LDCs.
- Measures to stabilize export earnings through IMF compensatory arrangements to ensure stable export market reduces the rate of unemployment.
- **Since investment climate affects employment,** then it is true that improved investment in LDCs will expand employment hence relevancy of the theory.
- The supply of co-operant factors e.g. labour can increase in the long run.
- **A fall in demand can lead to unemployment** hence the applicability of the theory.

6(a) What is an inflationary spiral? (4 marks)

Inflationary spiral is a situation that occurs during persistent inflation; which causes prices to constantly increase, that forces trade unions to keep demanding for higher wages leading to increase in production cost.

Inflationary spiral is a situation in which prices increase, then people are paid more in their jobs, which then causes the price of goods and services to increase again, and so on

(b) To what extent is inflation in your country a result of increased costs of production? (16marks)

In Uganda the following conditions increase the cost of production

- High wages and salaries
- Increasing prices of factor inputs such as cost of raw material
- Increasing cost of machinery
- High cost of transport/fuel
- High costs of borrowing
- High level of taxation
- Natural disasters, such as floods, earthquakes, or fires,; if a large disaster causes unexpected damage to a production facility and results in a shutdown or partial disruption of the production chain, higher production costs are likely to follow.

Other causes of inflation include

- **Uganda being an agro-based economy,** it has not generated adequate investment to boost other productive sectors. This has been due to inadequate inputs like fertilizers, ploughs, etc. which has caused scarcity of production leading to an increase in prices
- **Has climate such as draught,** too much rain lead to food scarcity and raw materials causing increases in their prices
- **High government expenditure** on unproductive activities increases money supply leading to increased prices
- **Trade embargoes** cause scarcity of imports leading to increase in prices of imports
- **Frequent devaluations** tend to cause a rise in prices of import goods and services.

- **Depreciations of machinery** cause a reduction in production leading to scarcity of goods and hence high prices of goods
- **Frequent monetary expansion**, which is not backed by production, has always caused excessive demand and high prices of products.
- **Population pressures.** High population growth rate exerts pressure on few commodities forcing prices to sour.
- **High marginal propensity to import** increase the demand and cost of foreign exchange and prices of imported commodities.

7(a) Distinguish between assets and liabilities of commercial banks.

Assets of a commercial bank are possessions of the bank plus claims on other institutions and claims on its clients, they include

- Cash in hand- both local and foreign currencies
- Reserves with central bank
- Deposits with other banks and nonbanks
- Loans, advances and overdrafts to other banks.
- Fixed assets e.g. buildings and land
- Long term investments e.g. bonds
- Short term investments like treasury bills

Liabilities of commercial bank are claims against the assets of commercial banks i.e. claims by creditors and depositors (what the bank owes), they include

- Money on current, fixed and savings accounts.
- Deposits by other banks and non-banks
- Government funds deposited in the bank
- Dividends payable due
- Wages and salaries to employees
- bank borrowing from other institutions.

(b) Examine the role of commercial banks in an economy

- Role of Commercial Banking in Promoting Savings among People by allowing access to credit to those with savings and offering interest to savings
- They aid in the successful implementation of monetary policies.
- They boost the industrial sector by offering short, medium, and long-term finance.
- They accelerate trade by offering agency services, overdraft facilities, and other solutions to wholesale and retail businesses.
- They adopt innovative ways to facilitate easy banking—automation, digitalization, and artificial intelligence.
- They ensure a superior level of data security for their clients
- They carry out investment activities and projects. They invest their capital e.g. in form of shares, debentures.
- They offer employment opportunities in the country.
- They help in expanding the productive capacity of a country through loans
- They provide taxes to the country.
- They facilitate development of infrastructures such as roads, schools and hospitals

- Strengthen international relations especially banks by foreign investors.

8(a) Differentiate between a national debt and public debt.

A **national debt** is a debt owed by the central government both to its nationals and foreigners excluding that incurred by local authorities.

A **Public debt** is a debt owed by the central government to its nationals and foreigners including debts incurred by public corporations and local authorities.

(b) What are the causes of a national debt?

Countries incur debts because

- **Inadequate tax revenue.** Poor countries incur debts because of inadequate collections of revenues from taxes to finance government programs.
- **To reduce the burden of taxation.** Borrowing is often resorted to as a means of reducing the tax burden from the people.
- **To overcome natural calamities.** Debts are incurred to meet unexpected occurrence such as floods, draught.
- **Raising revenue.** The government incurs national debt so as to raise adequate revenue required to for development purposes.
- **Financing ambitious plans.** Government tends to draw ambitious plans that are often financed through borrowing.
- **To attain economic growth.** Effective exploitation of domestic resource potential is often financed through borrowing
- National debts are incurred to fill manpower, foreign exchange gaps and saving gaps.
- **To balance the budget.** Debts are incurred to help cover unforeseen or unpredictable budgeting deficits.
- **Curbing an economic depression.** Debts are quite significant for raising production, aggregate demand, employment and the level of economic activity.
- **Debt servicing.** Nations incur fresh debts in order to repay the old ones
- **Political instability.** Countries borrow to settle political instabilities.
- **Decreased tax revenue** caused by widespread unemployment

Thank you

Dr. Bbosa Science