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## Economics paper 2 set 14 and marking guide

### SECTION A

Answer all parts of this section

1. (a) (i) Define the term income elasticity of demand. (01 mark)  
(ii) Given that an increase in the income of customer from shs. 25,000 to Shs40,000 resulted in a change in demand for a commodity from 780 units to 600 units. Calculate income elasticity of demand. (03 marks)
- (c) State four characteristics of the formal sector in your country. (04 marks)
- (b) (i) What is meant by the term economic dependence (01 marks)  
(ii) Mention any three forms of economic dependence in your country. (03 marks)
- (d) (i) Define the term capital intensive technology. (01 mark)  
(ii) Give any three factors that limit the adoption of capital intensive technology in your country. (03 marks)
- (e) (i) What is a national budget? (01 mark)  
(ii) Mention any three objectives of a budget in your country. (03 mark)

### SECTION B

Answer any four questions from this section

2. (a) How are salaries and wages determined in your country? (06 marks)  
(b) Account for the differences in salary and wage rates in your country. (14 marks)
3. (a) What is meant by the term trade liberalization (04 marks)  
(b) Examine the implications of trade liberalization on an economy. (16 marks)
4. (a) Describe the population structure of your country. (08 marks)  
(b) Examine the economic implications of such a population structure. (12 marks)
5. (a) What are the objectives of the monetary policy in your country? (06 marks)  
(b) Explain the methods used by the central bank to regulate money supply in your country. (14 marks)
6. (a) What are the benefits of economic development planning? (08 marks)  
(b) Explain the factors that influence the implementation of economic development plans in your country. (12 marks)
7. (a) Why have public enterprises been privatized in your country? (10 marks)  
(b) Explain the contribution of the private sector to the economic development of your country. (10 marks)

SECTION A

Answer all parts of this section

1. (a) (i) Define the term income elasticity of demand. (01 mark)

**Income elasticity of demand** refers to the sensitivity of the quantity demanded for a certain good to a change in the **real income** of consumers who buy this good.

- (ii) Given that an increase in the income of customer from shs25,000 to Shs. 40,000 resulted in a change in demand for a commodity from 780 units to 600 units. Calculate income elasticity of demand. (03 marks)

$$\begin{aligned}\text{Income elasticity of demand} &= \frac{\text{Percentage change in quantity demanded}}{\text{percentage change in income}} \\ &= \left( \frac{600-780}{780} \times 100 \right) \div \left( \frac{40,000-25,000}{25,000} \times 100 \right) \\ &= -\frac{180}{780} \times \frac{25,000}{15,000} = -0.385\end{aligned}$$

- (b) State four characteristics of the formal sector in your country. (04 marks)

- made up of predominantly registered businesses
- mainly provide salaried employment
- has proper record keeping
- businesses are mainly governed by law/acts of parliament
- dominated by corporate ownership of resources
- has employees and employers unions
- mainly use better/improved technology
- mainly produce better quality goods and services
- mainly located in urban/suburban regions
- mainly use skilled labour
- are mainly profit oriented

- (c) (i) What is meant by the term economic dependence (01 marks)

**Economic dependence** is where a country relies on specific sectors or other economies in terms of resources and economic decisions for its survival.

- (ii) Mention any three forms of economic dependence in your country. (03 marks)

- Sectoral dependence.
- Trade dependence.
- External resource dependence.
- Direct economic dependence.

- (c) (i) Define the term capital intensive technology. (01 mark)

**Capital Intensive technology** is a production technique that employs more capital relative to other factors of production especially labour.

- (ii) Give any three factors that limit the adoption of capital intensive technology in your country. (03 marks)

- Limited funds/stock of capital.
- Limited skilled labour
- Limited entrepreneurship skills

- Low level of innovations and inventions/research.
- Cultural rigidities/conservatism.
- Poor topography.
- Small/limited market for technology and products.
- Under developed or poor conditions of infrastructure.
- Poor Land tenure system.
- Poor accountability/corruption.
- Political instability

(d) (i) What is a national budget? (01mark)

A national budget is an estimate of country's expected income and expected expenditure for a given financial/fiscal year.

(ii) Mention any three objectives of a budget in your country. (03mark)

- Creating and maintaining a high level of employment. This is done through reducing taxes and increasing government expenditure on various development projects
- Guides the government on how to spend public funds in order to achieve economic stability and national development
- To stimulate faster rate of economic development through efficient use of natural resources.
- It informs the government on the performance of the past budget. The government therefore is in position to work out loopholes and plan.
- It is important in attracting foreign aid
- To achieve well equitable distribution of income through progressive tax system.
- To raise government revenue for development of social and economic infrastructure.
- To control inflation
- To correct balance of payment
- To help government in protecting infant domestic industries
- To plan manpower development
- influence resource allocation
- influence investment

## SECTION B

*Answer any four questions from this section*

2. (a) How are salaries and wages determined in your country? (06 marks)

- Through market forces of demand and supply of labour.
- Through collective bargaining.
- By employers setting the salaries/wages.
- Through individual bargaining.
- Using the piece rate.
- Using the time rate

(b) Account for the differences in salary and wage rates in your country. (14 marks)

- **Difference in talents** (natural ability) those who are naturally talented e.g. footballers, musicians usually earn higher wages than their counterparts that are not talented.
- **Differences in opportunities:** people with good paying jobs earn more than others with low paying jobs

- **Differences in elasticity of demand;** inelastic labour attracts higher wages than elastic labour
  - **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 infrastructure distribution.** Area with even distribution of infrastructure tend to have higher incomes than others with under developed infrastructures
  - **Differences in age, sex, tribe and race;** labour discrimination is based on these factors are used to determine individual wages.
  - **Risks of jobs;** people in risky jobs earn bigger wages
  - **Difference in number of hours worked;** those who work long hours are paid more than those that work a few hours
  - **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.
  - **Influence of trade unions.** Strong and sound trade unions agitate for favorable conditions of work.
  - **Political stability;** areas that are politically stable attract investment than those that are unstable.
  - **Government policy;** government tend to favor some parts of the country when allocating resources. These get higher incomes
  - **Globalization** – Lesser-skilled Ugandan workers have been losing ground in the face of competition from workers in Asia and neighboring countries.
  - **Skills/expertise and responsibility**– 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
3. (a) What is meant by the term trade liberalization (04 marks)  
**Trade liberalization** is the removal or reduction of restrictions or barriers on the free exchange of goods between nations

(b) Examine the implications of trade liberalization on an economy. (16 marks)

**Positive implications /Advantages/benefits/Merits** of trade liberalization in Uganda are:

- increased employment opportunities
- Increased level of output hence increased growth rates
- Encourages resource utilization.
- Encourages inventions and innovations / technological transfer/ technological development.
- Competition forces firms to be efficient in order to remain in business,
- Improved quality of goods
- Increased revenue to government e.g. through taxation.
- Fights corruption.
- Tends to control structural inflation
- Improved B.O.P position as exports are encouraged.
- Reduces income and wealth inequalities among people and regions.
- Encourages foreign investment/ inflow of capital / resources
- Upholds consumer sovereignty
- Wide variety infrastructural development
- Improves relations with (other countries especially donors.

- Promotes entrepreneurial skills
- Promotes economic diversification

#### Negative implications/Disadvantages/demerits of trade liberalization in Uganda

- Makes the susceptible to instabilities especially price fluctuations.
- Collapse of local firms due to competition.
- It leads to unemployment.
- Danger of resource misallocation
- Duplication hence resource(s) wastage/ Depletion of some resources due to over exploitation.
- Flooding of markets that sometimes force prices to go very low to unacceptable levels.
- Distortion of Consumer choices due to advertisement / intensive sales promotional activities.
- Consumer exploitation due to ignorance
- Encourages capital outflows.
- May give rise to monopoly and its associated evils.
- Leads to income and wealth inequalities.
- Environmental degradation is accelerated.
- Leads to Foreign economic dominance.

#### 4. (a) Describe the population structure of your country. (08 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 economic implications of such a population structure. (12 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) What are the objectives of the monetary policy in your country? (06 marks)

**The monetary policy** refers to the measures used by the Central bank to control the demand and supply of money together with the interest rate in order to influence the level of economic activity.

(b) Explain the methods used by the central bank to regulate money supply in your country. (14 marks)

- open market operation
- bank rate
- selective credit control
- legal reserve requirement
- rationing of credit
- moral suasion
- compulsory deposit/special deposits
- currency reforms
- The Bank rate policy.
- Margin requirement.

6. (a) What are the benefits of economic development planning? (08 marks)

- Ensures proper resource allocation/utilization.
- Ensures equitable distribution of resource/income/regional balance.
- Reduces the level of unemployment problem.
- Corrects BOP problems.
- Ensures stability in prices.
- Ensures self-sufficiency/reduces economic dependence.
- Promotes resource mobilization.
- Encourages public participation in the development of the economic dependence.
- Promotes resource mobilization.
- Encourages public participation in the development of the economy.
- Harmonizes/ensures consistent use of resources.
- Means of attracting foreign aid.
- Helps in identifying areas suitable for public and private investment.
- Relates present to future trends; and targets.
- Corrects deficiencies of price mechanism, most especially during situations of rapid structural changes.
- Promotes economic growth.

(b) Explain the factors that influence the implementation of economic development plans in your country. (12 marks)

- The availability of data / information
- The degree of responsiveness of the private sector

- The level of government commitment / the level of conservatism/ the will of the people.
- The degree of political interference.
- The efficiency of the implementation machinery/labor skills.
- The political atmosphere/climate.
- The level of accountability
- The rate of inflation / the price level.
- The ambition of planning) relative to means/the degree of ambitiousness of planning
- The degree of dependence on external resources / or aid for planning.
- The level of dependence on nature / the conduciveness of natural-factors.
- The level of infrastructural development

7. (a) Why have public enterprises been privatized in your country? (10 marks)

- **To create more employment opportunities.** Privatization leads to efficient allocation of resources which leads to the expansion of production and business activities. This increases employment opportunities in the long run
- **To increase efficiency in resource allocation.** Privatization promotes competition and efficiency in resource use. This leads to the production of better quality goods and services at reduced prices. This improves the standards of living of the consumers.
- **To increase government revenue through taxation.** Privatization helps to create a strong private sector which helps to widen the tax base in form of employment and business activities set up hence generating more tax revenue to the government.
- **To increase capital inflow in the country.** Privatization helps to attract foreign direct investments in the economy. This increases the level of investment in the country.
- **To develop social and economic infrastructure.**  
The expansion of the private sector through privatization promotes the development of the social and economic infrastructures in form of roads, schools, hospitals, financial institutions etc.
- **To promote technological development in the country.**  
Privatization facilitates technological progress through innovation, invention and technology transfer due to foreign ownership of some enterprises. This leads to the production of better quality goods and services.
- **To facilitate the exploitation and utilization of the idle local resources.** The major aim of private firms under privatization is profit maximization. Therefore, they employ efficient techniques of production which leads to the production of more goods and services hence economic growth and development.
- **To reduce the balance of payment problems in the country.** Through privatization, there is increased production of goods and services for domestic market. This helps to save the scarce foreign exchange which would be used for import purposes.
- **To reduce bureaucracy, corruption and embezzlement of funds associated with the public sector.** This promotes accountability and transparency in management and allocation of resources in the economy.
- **To promote industrial development.** The backward and forward linkages created in the economy through privatization promote the establishment of small scale industries which can later be developed into large scale industries.
- **To increase the GDP of the country.** Privatization increases the contribution of the private sector to the GDP. This is because it increases output and resource utilization in the economy.

- **To widen the consumer choice.** This is because privatization encourages the production of a variety of consumer commodities which leads to improved standards of living
- **To help in creating a class of entrepreneurs in the economy.** Privatization enables private individuals to acquire the necessary practical skills required to operate modern business enterprises. This promotes managerial capacity building and helps to reduce government expenditure on training costs.
- **To ensure political stability in the economy.** This is because the private entrepreneurs who have invested a lot of capital in their businesses have to see it that there is security and stability in the economy to secure their lives and property.
- **To promote better industrial relations and efficiency of labour.** This is because there is a direct relationship between the entrepreneurs and employees in the private sector.
- **To reduce inflation and create economic stability.** This is as a result of increased production of goods and services by the private enterprises.
- **To reduce excessive government expenditure.** Privatization enables the government to concentrate its spending on the provision of social services to the society like medical services, education and security.

(b) Explain the contribution of the private sector to the economic development of your country. (10 marks)

- increases output hence economic growth
- increases government revenue
- widens customers choice due to a variety of goods
- improved quality of goods and services.
- reduced corruption and embezzlement
- reduction of unemployment
- promotes skill development
- promotes innovations and inventions
- improves international relations
- reduces inflation through increased production
- increased efficiency

Thank you

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