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## Economics paper 1 set 17 and marking guide

### SECTION A (20 marks)

Answer all parts of this section

1. (a)(i) Distinguish between consumption expenditure and investment expenditure. (02marks)  
(ii) Mention two factors that influence consumption expenditure in Uganda (02marks)
- (b) State any four roles of public enterprises (04marks)
- (c)(i) Define the term demand for labour (01mark)  
(ii) State any three factors that determine demand for labour in Uganda (03marks)
- (d)(i) what is meant by fiduciary issue in banking? (01mark)  
(ii) give three functions of money in Uganda (03marks)
- (e)(i) Distinguish between specific tax and ad valorem tax (02marks)  
(ii) State any two demerits of levying a specific tax in Uganda (02marks)

### SECTION B (80 MARKS)

Answer any four questions

2. (a) How does a firm in a monopolistic competitive market determine out, price and profit in  
(i) short run (06 marks)  
(ii) long run (06marks)
- (b) Explain the merits and demerits of monopolistic competition in Uganda (08marks)
3. (a) Differentiate between economic growth and economic development. (04marks)  
(b) suggest measures that should be adopted to increase the rate of economic growth (16marks)
4. (a) Examine the role of Multi-national Corporation in Uganda. (10marks)  
(b) What problems are faced by Multi-national Corporation in Uganda? (10marks)
5. (a) Differentiate between import substitution and export promotion strategies of industrial development. (04marks)  
(b) Assess the impact of import substitution strategy of industrialization on the development of Uganda's economy. (16marks)
6. (a) Distinguish between demand-pull inflation and imported inflation (04marks)  
(b) Explain the effect of inflation in Uganda (16marks)
7. (a) Account for the persistent debt burden in Uganda (08marks)  
(b) Describe methods being used to reduce the public debt in Uganda. (12marks)

**SECTION A (20 marks)**

Answer all parts of this section

1. (a)(i) Distinguish between consumption expenditure and investment expenditure. (02marks)

**Consumption expenditure** is the amount of money/expenditure on final goods and services to provide utility/satisfy individual/collective human wants.

**Investment expenditure** is amount of money devoted to creation of/increasing the existing capital stock

- (ii) Mention two factors that influence consumption expenditure in Uganda (02marks)

- Level of income
- Price level/rate of inflation
- Marginal propensity to save/MPC
- Level of taxation/subsidization
- Seasonal factor
- 

- (b) State any four roles of public enterprises (04marks)

- provide goods and services that have low commercial profitability but having high social benefits
- reduce duplication and wastage of resources and goods
- provide employment opportunities
- promote investment
- provide employment opportunities
- protect customers/nationals from exploitation by private producer
- complement private sector and discourage monopoly
- encourage/mobilize savings
- ensure supply of goods that require high capital
- promote development of entrepreneurial skill
- promote equitable distribution of income
- improve balance of payment position
- reduce economic dependence/promote self-reliance
- promote infrastructural development
- encourage foreign investment/capital inflow
- encourage economic diversification

- (c)(i) Define the term demand for labour (01mark)

**Demand for labour** refers to the quantity of labour desired by an employer at a given wage rate in a given time. *OR.* It refers to the number of people employers are willing to offer jobs at a given wage rate in a given time.

- (ii) State any three factors that determine demand for labour in Uganda (03marks)

- The demand for the product that labour produces
- The wage rate
- The proportion of labour cost to the total cost

- of production
- The availability of co-operant factors
- The skills of labour
- The productivity of labour/ the efficiency of labour.
- The substitutability of labour with other factors
- Level of investment/number of firms in an economy

(d)(i) what is meant by fiduciary issue in banking? (01mark)

**Fiduciary issue.** This is the money issued by the central bank which is not fully backed by gold reserves (foreign exchange reserves) but by government securities.

(ii) give three functions of money in Uganda (03marks)

- Medium of exchange
- Acts as measure of value
- It is standard deferred payment
- Unit of account

(e)(i) Distinguish between specific tax and ad valorem tax (02marks)

**Specific tax.** This is the tax imposed on commodities basing on their quantities or units imported for example a tax of 500/= imposed on each unit of the commodity imported.

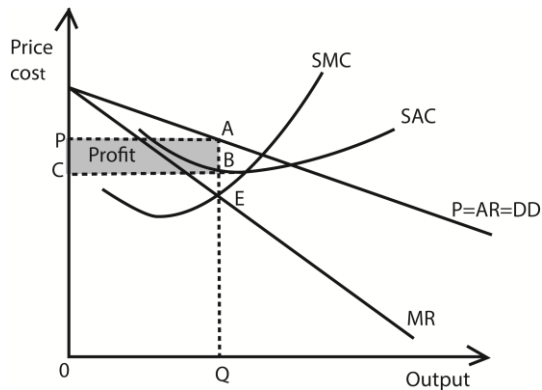
Ad valorem tax is tax levied on a commodity basing on its value.

(ii) State any two demerits of levying a specific tax in Uganda (02marks)

- Leads to inflation
- promotes income inequality
- leads to misallocation of resource
- discourages investment
- promotes trade malpractice such as smuggling and tax invasion
- breeds insufficiency of protected firms/industries
- leads to resentment of government
- increases production costs hence low productivity
- discourage saving
- reduce consumption

**SECTION B (80 MARKS)**  
Answer any four questions

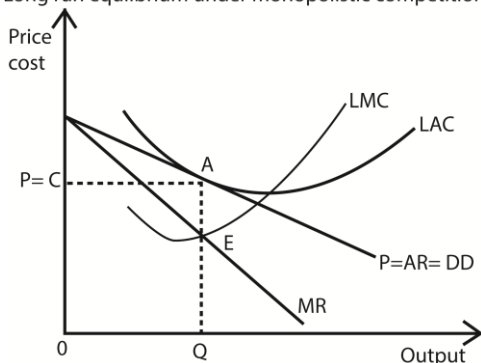
2. (a) How does a firm in a monopolistic competitive market determine out, price and profit in (i) short run (06 marks)



- Equilibrium output is determined at point where  $MC=MR$  that is at appoint E and output produced is Q
- Price of equilibrium output Q is determined by projecting the output line to the AR curve (point A) which corresponds with price P
- The firm enjoys super normal profit represented by area ABCP

(ii) long run (06marks)

Long run equilibrium under monopolistic competition



- Equilibrium output is determined at point where  $MC=MR$  that is at appoint E and output produced is Q
- Price of equilibrium output Q is determined by projecting the output line to the AR curve (point A) which corresponds with price P
- The AR being tangential to LAC, the firm enjoys only normal profit

(b) Explain the merits and demerits of monopolistic competition in Uganda (08marks)

Merits of monopolistic competition

- **Firms undertake product differentiation which enables consumers to enjoy a variety of products.** This improves on their welfare due to a wide choice created.
- **There is competition among firms which encourages efficiency in production.** This leads to the production of high quality products.
- **Because of many firms involved in production of differentiated products, there are no shortages of goods and services as in the case of monopoly.** This is because even if one firm closes down, other firms can continue to produce goods and services.
- **Creation of more employment opportunities.** This is because there are many firms involved in production which increases the utilization of resources and thereby creating more employed opportunities.
- **Through competition, research and innovations are possible.** This is because each firm is aimed at increasing the quality of its product so as to compete favorably in the market.

- Source of revenue to the government through taxation of the abnormal profits earned in short run

Demerits of monopolistic competition

- **In the long run, firms earn normal profits** and therefore it is not possible to expand on production and enjoy economies of large scale.
- **There is production at excess capacity both in the short and long run.** This leads to underutilization of resources hence unemployment and underemployment.
- **There is duplication of commodities in the market in form of product differentiation.** This leads to resource wastage.
- **There is too much advertisement which leads to wastage of scarce financial resources.** In addition the advertisement costs are shifted to the consumers in form of high prices hence exploiting consumers.
- **Research is not possible in the long run.** This is because firms earn normal profits and this may reduce the quality of the products.

3. (a) Differentiate between economic growth and economic development. (04marks)

(b) suggest measures that should be adopted to increase the rate of economic growth (16marks)

- improve labour skill
- develop techniques of production
- improve entrepreneurial skill
- change the land tenure system
- provide (tax) incentive to investors
- stabilize prices/control inflation
- political stability
- liberalize economy
- privatize inefficient public enterprise
- provide affordable credit
- widen market through integration
- reduce corruption and embezzlement of public funds
- modernize agricultural sector/economy
- develop infrastructures
- fight conservatism through education
- control population growth
- promote accountability

4. (a) Examine the role of Multi-National Corporation in Uganda. (10marks)

**Positive roles (implications) Multinational corporation in economic development**

- **They create employment opportunities.** Foreign investors set up production activities and business enterprises like banks, hotels, industries etc. which

provide employment to the local population. This increases the incomes of the people hence better standards of living.

- **They increase efficiency in resource allocation.** Foreign investors employ efficient techniques of production which leads to the production of more goods and services hence economic growth and development.
- **They are a source of government revenue through taxation.** Foreign investors help to widen the tax base in form of taxes imposed on their profits, employment incomes and other business activities created hence generating more tax revenue to the government. The revenue realized is used to construct social and economic infrastructure like hospitals, roads, schools etc.
- **They increase capital inflow in the country.** Foreign investors help to fill the savings-investment gap in developing countries through inflow of capital and other resources. This increases the level of investment in the country.
- **They help to close the foreign exchange gap.** Foreign investors bring in foreign exchange by investing in developing countries. This increases the country's foreign exchange reserves and its monetary base. Such foreign exchange is used to import capital and consumer goods which cannot be produced locally.
- **They lead to the development of social and economic infrastructure.** Foreign investors promote the development of the social and economic infrastructures in form of roads, schools, hotels, hospitals, financial institutions etc. and this leads to the development of the economy.
- **They promote technological development in the country.** Foreign investors facilitate technological progress through technology transfer from developed to developing countries. Local people learn and adopt the modern techniques of production hence improving on their efficiency in production. This leads to the production of better quality goods and services.
- **They promote the exploitation and utilization of the idle local resources.** This helps to improve on the productive capacities in the economy hence economic growth and development.
- **They reduce the balance of payment problems in the country.** This is because foreign investors increase the production of goods and services for exports and for domestic consumption. This reduces on the importation of goods and services in the economy hence improved balance of payment position for the country.
- **They promote industrial development.** Foreign investors help to mobilize financial resources which are used for development of heavy industries like iron and steel industries, electrical engineering etc. Such industries require a lot of capital which is lacking in developing countries.
- **They encourage competition in the local business activities.** This leads to the production of better quality goods and services at reduced prices hence better standards of living.
- **They accelerate economic growth of the country.** This is because foreign investors widen the production and economic activities in the country which increases output in the economy.
- **They lead to the production of a variety of quality consumer commodities.** This widens the choice of consumers hence improving their standards of living through utility maximization.
- **They help to create a class of entrepreneurs in the economy.** The private foreign investors

help to train the local individuals with the necessary managerial skills required to operate modern business enterprises. This helps to close the manpower gap in developing countries.

- **They promote good international relationships between their countries of origin and other countries where their business activities are extended.** This enhances mutual understandings among countries.
- Fill the manpower gap

### **Negative role (implications of Multinational Corporations in developing countries**

- **They promote regional income inequalities in economy.** This is because most of the production, and business activities of foreign investors are mainly concentrated in urban areas neglecting the rural areas. This creates regional imbalance.
- **They lead to profit repatriation.** Private foreign investors take back the profits made to their home countries instead of re-investing them in the countries where they operate. This leads to low capital accumulation in the economy.
- **They undermine the provision of basic essential goods and services which are non-profit making.** This is because they aim at venturing in activities which are profit maximizing.
- **They lead to technological unemployment.** This is due to increased use of capital-intensive techniques of production and inefficient firms being pushed out of the production process due to stiff competition.
- **They lead to emergence of private foreign monopolies.**  
This increases consumer exploitation as private foreign monopolies restrict output and charge high prices with the aim of maximizing profits.
- **They lead to rural-urban migration.** This is because most of the business activities of foreign investors are concentrated in urban centers due to poor infrastructure in rural areas. This leads to congestion and increased cost of living in urban areas.
- **They lead to over dependence of the economy on developed countries.** This increases foreign dominance and control of the economy in terms of resources and economic decisions through foreign direct investments.
- **They lead to divergence between private and society interests.** This is because private foreign investors aim at maximizing profits at the expense of the society. In the process, they cause negative externalities in form of environmental degradation and depletion of natural resources hence failure of the economy to be self-sustaining in the long-run.
- **They out compete the local investors.** This is because foreign investors have huge capital and they have the capacity to operate on a large scale. They have the ability to reduce prices of their products to a much lower level than the local investors and this undermines the growth of local firms.
- **They interfere in the politics of developing countries.**  
Foreign investors use their economic power to influence national policies and politics of the countries in which they operate in their favor. This results into loss of independence in local decision making.
- **They reduce the net benefits in real terms of foreign capital investments.** This is because the foreign investors ask for too much tax concession in form of tax holidays, investment incentives, subsidies and protection from the outside competitors. This makes it costly to the government.

(b) What problems are faced by Multi-National Corporation in Uganda? (10marks)

- limited supply of skilled labour
- limited supply of raw materials
- limited capital
- high levels of inflation
- poor land tenure system
- under developed infrastructures
- small market
- high interest rate
- high corruption
- political instability

5. (a) Differentiate between import substitution and export promotion strategies of industrial development. (04marks)

**Import - substitution strategy** of industrial development refers to the government policy of encouraging the establishment of firms, industries to process and manufacture locally / domestically- goods which were previously imported

*While*

**Export promotions strategy** of industrial development is the (government policy of encouraging) setting up of industries/firms to process and manufacture / produce goods for foreign markets / exports

(b) Assess the impact of import substitution strategy of industrialization on the development of Uganda's economy. (16marks)

#### **Positive impacts of import substitution strategy**

- increased output hence economic growth
- lead to infrastructural development
- improves labour skills
- improved balance of payment position/save foreign exchange
- provide revenue to government
- increased utilization of local resources
- reduced imported inflation
- reduced dependence on imports
- provide employment opportunities
- encourage capital inflow/foreign investment
- diversify the economy
- promote growth of industrial sector
- creates linkages with other sectors/widen market

#### **Negative impacts of import substitution strategy**

- production of low quality output
- lead to technological unemployment
- limited variety of good hence limited choice
- imbalance in regional development
- rural urban migration because most industries are concentrated in urban areas

- high government expenditure of subsidization
- loss of government revenue from import duties
- depletion of resources/over utilization of resources
- capital outflow through profit repatriation
- promotes external resource dependence
- environmental pollution

6. (a) Distinguish between demand-pull inflation and imported inflation (04marks)

**Demand pull inflation** - is the persistent increase in the (average/ general) price level due to aggregate demand exceeding aggregate supply (at full employment level of resources / N Y).

*While*

**Imported inflation** - refers to a persistent increase in the price level due to importation (of goods and services) from countries experiencing inflation

(b) Explain the effect of inflation in Uganda (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

7. (a) Account for the persistent debt burden in Uganda (08marks)

- **Low tax base.** This is due to a narrow range of tax sources which limit the tax revenue. This forces the government to borrow hence a huge public
- **High levels of inflation in the country.** This leads to loss of the real value of the government revenue making it difficult to finance the estimated expenditure hence
- **Persistent debt servicing.** The need for the government to repay the debts contracted in the past forces it to continue borrowing hence a huge public
- **Great demand for investment in the presence of low savings.** This forces the government to borrow in order to close the savings investment gap through borrowing hence a huge public
- **Political instabilities and insecurity in the country.** This forces the government to borrow in order to finance wars and maintain the army hence increasing the public debt burden.
- **Increased expenditure on the adverse effects of unforeseen circumstances.** For example famine, drought, floods, epidemics etc. This forces the government to borrow in order to cater for people affected by such
- **Under taking over ambitious projects** like Universal Primary Education (U.P.E), Universal Secondary Education (U.S.E), and Poverty alleviation programs etc. without enough resources. This forces the government to borrow hence a huge public
- **Misuse of public funds through corruption and embezzlement.** This leads to wastage of scarce government resources meant for productive activities hence continued borrowing.
- **Huge government administrative expenditure** in form of salaries and other allowances on politicians and civil servants. This is reflected by a big parliament cabinet. This forces the government to borrow in order to meet such recurrent
- **The large number of government activities.** For example presidential and parliamentary elections, presidential trips which require too much spending hence borrowing.
- **High population growth rates leading to high dependence burden.** This forces the government to borrow in order to cater for the social needs of the rapidly growing population e.g. education, medical care
- **Excessive capital out flow inform of profit repatriation.** This leads to loss of public revenue hence balance of payment deficits

(b) Describe methods being used to reduce the public debt in Uganda. (12marks)

- **Use of the Privatization** This can help reduce on government expenditure on non performing Parastatals hence reducing the budgetary deficits.
- **Cost sharing** especially in providing public services to the people. The cost of providing social services can be shared between the government and the people as a way of reducing government expenditure.
- **Widening the tax base.** This can be done by creating a variety of taxes on different economic activities as a way of increasing tax revenue g land tax.
- **Trade liberalization.** This not only encourages competition but also to promotes efficiency and proper resource use in the economy. This leads to improvement in the quality and quantity of exports hence more export
- **Reducing borrowing for dead weight debts.** Borrowing should be restricted to investments in productive ventures which can be used to generate more income and savings necessary for economic growth and

- **Maintaining political stability and security in the country.** Democratic governance should be promoted and practiced. In addition peace talks and amnesty laws should be respected as a way of promoting peace in the This can also help to reduce defense spending.
- **Export promotion policies** by improving on the quantity and quality of exports through value addition. This can help to increase on foreign exchange earnings of the country.
- **Combining two or three ministries into one as a way of minimizing public expenditure.** In addition size of the parliament can also be reduced and the creation of new districts can be stopped to reduce government
- **Fighting corruption and embezzlement** of government funds by imposing stringent penalties on corrupt
- **Controlling inflation** through the use of appropriate restrictive monetary and fiscal policies, e.g. increasing the bank rate to reduce money supply in the economy by the central
- **Checking on the high population growth rate.** This can be done by encouraging people to use family planning methods as a way of controlling population growth.
- **Rehabilitation and construction of new social and economic infrastructures** especially in rural areas. This can help to facilitate production and transportation of produce to the market areas from which the government can tax to raise
- **Appealing for debt relief**
- Controlling population growth

Thank you

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