

THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD  
*A Committee of the Council of ICPAU*

ECONOMIC ENVIRONMENT - PAPER 2

DECEMBER 1998

INSTRUCTIONS TO CANDIDATES

1. Time allowed: 3 hours
2. Attempt **all** questions in Section **A** and any **four** questions from Section **B**.
3. Section **A** has **twenty** compulsory questions each carrying 2 marks.
4. Section **B** has **six** questions and only **four** are to be attempted. Each question carries 15 marks.
5. Please read further instructions on the answer book.

© 1998 Public Accountants Examinations Board

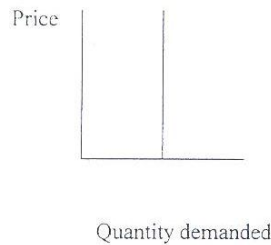
SECTION A

Question 1

- (i) James Jadwong, a resident of Bugolobi, goes to the market and buys sugar instead of bread, as he cannot afford both. In making this choice what cost is he incurring?
- (a) Marginal Cost.
  - (b) Cost of Choice.
  - (c) Opportunity Cost.
  - (d) Implicit Cost.

- (ii) An economic system is the link between –
- (a) Owners and workers.
  - (b) Consumers and producers.
  - (c) Manufacturers and managers.
  - (d) Industries and Governments.

- (iii) Demand curve of commodity X is given below:



What is the price elasticity (E) of commodity X?

- (a)  $E = 1$ .
  - (b)  $E = -1$ .
  - (c)  $E = \infty$ .
  - (d)  $E = 0$ .
- (iv) If the price of candles remains constant and the quantity demanded increases, then -
- (a) demand for candles is price elastic.
  - (b) demand for candles is price inelastic.
  - (c) the demand curve for candles has shifted to the right.
  - (d) the demand curve for candles has shifted to the left.

- (v) Whilst watching a basketball tournament, Gary buys four hotdogs from a stall. As he eats each one of them he notices that the flavour deteriorates with each successive bite. What economic concept is Gary experiencing?
- (a) Marginal propensity to consume.
  - (b) Decreasing satisfaction.
  - (c) Diminishing marginal utility.
  - (d) Consumer overload.
- (vi) In a subsistence economy, production is mainly for –
- (a) small scale trade.
  - (b) the internal market.
  - (c) the regional market.
  - (d) personal consumption.
- (vii) A transfer payment is –
- (a) expenditure for which no goods or services are exchanged.
  - (b) the transfer of money/goods between countries.
  - (c) a Central Bank transaction.
  - (d) payment of external debt by governments.
- (viii) Which of the following statements best describes a Giffen good?
- (a) A good for which demand is unrelated to price.
  - (b) A good for which demand falls as price falls.
  - (c) A good for which demand rises as price rises.
  - (d) A good for which demand falls as price rises.
- (ix) Per capita income of a nation refers to –
- (a) the Gross National Income divided by the population.
  - (b) the Gross Domestic Product divided by the population.
  - (c) the total external income divided by the population.
  - (d) the total national debt divided by the population.

- (x) Which of the following cannot have an upward sloping demand curve?
- (a) inferior goods.
  - (b) goods with snob appeal.
  - (c) goods regarded as necessities.
  - (d) goods for which price movements are linked to expectations.
- (xi) In which of the following circumstances will a devaluation of the currency have a negative effect on the economy?
- (a) demand for exports is inelastic.
  - (b) demand for imports is elastic.
  - (c) supply of exports is elastic.
  - (d) supply of imports is inelastic.
- (xii) Which of the following changes will cause a negative shift in the demand for labour in a particular industry?
- (a) a decrease in the price of a complementary final product.
  - (b) an increase in the price of a complementary factor.
  - (c) an increase in the price of a substitute factor.
  - (d) a decrease in the productivity of labour.
- (xiii) Which of the following are objectives of the General Agreement on Tariff and Trade (GATT)?
- (1) To promote trade between developed and developing countries.
  - (2) To reduce existing trade barriers.
  - (3) To eliminate discrimination in international trade.
- (a) (1) and (2).
  - (b) (1) and (3).
  - (c) (2) and (3).
  - (d) All of them.
- (xiv) If a company which manufactures fine leather goods buys tanning factory, this is an example of –
- (a) horizontal integration.
  - (b) vertical integration.
  - (c) complementary integration.
  - (d) industrial expansion.

- (xv) An industry such as Kinyara Sugar Works is an example of a –
- (a) rooted industry.
  - (b) tied industry.
  - (c) localised industry.
  - (d) bulk increasing industry.
- (xvi) Which of the following statements concerning the behaviour of a monopolist is NOT true?
- (a) a monopolist may produce at an output where marginal revenue is negative.
  - (b) a monopolist can maintain supernormal profits in the long run.
  - (c) a monopolist can produce at an output where MC is falling even in the long run.
  - (d) it is impossible to derive a supply curve for a monopolist.
- (xvii) Which of the following is likely to result in an improvement in Uganda's terms of trade?
- (a) a devaluation in the value of the Uganda shilling.
  - (b) a decrease in demand for imports.
  - (c) an increase in the price of oil.
  - (d) an increase in the price of coffee.
- (xviii) The Uganda Securities Exchange is regulated by the –
- (a) The Capital Market Statute.
  - (b) The Capital Markets Regulatory Authority.
  - (c) The Capital Markets Authority.
  - (d) The Companies Act.
- (xix) NAFTA stands for –
- (a) North African Free Trade Area.
  - (b) North American Free Trade Area.
  - (c) North African Free Trade Association.
  - (d) North American Free Trade Association.
- (xx) If A and B are substitute goods then the cross elasticity of demand will be –
- (a) positive.
  - (b) negative.
  - (c) zero.
  - (d) infinity.

SECTION B

Question 2

- (a) What do you understand by the term 'demand for money'? (3 Marks)
- (b) Explain the three reasons for holding money as set out by Lord Keynes (12 Marks)

Question 3

- (a) Describe the main characteristics of an oligopolistic market. (3 Marks)
- (b) Using a diagram explain the 'kinked' demand curve of an oligopoly. (3 Marks)
- (c) What are the weaknesses of this model? (3 Marks)
- (d) What barriers to entry exist to prevent new firms in the Ugandan market for soft drinks? (3 Marks)
- (e) What non-price methods are used by the existing producers of soft drinks to increase their sales? (3 Marks)

Question 4

Erasmus Osinde, owner of a grocery business, has just registered for VAT and wants you to explain why the government needs to levy a 'hidden' tax like VAT when he already has to pay tax on his profits and deduct PAYE from his employees salaries.

You are required to write a letter to Mr Osinde explaining the difference between direct and indirect taxes and setting out two advantages and disadvantages of each type of taxation.

(15 Marks)

Question 5

- (a) Why do many developing countries have balance of payments problems? (4 Marks)
- (b) Give three examples of action that the Uganda government has taken to solve balance of payment problem since 1986. (8 Marks)
- (c) Identify and explain three other policies that could be <sup>used to</sup> deal with balance of payment problems. (3 Marks)

**Question 6**

- (a) What positive role can parastatals play in the development of a national economy? (5 marks)
- (b) Why is the Uganda government following a policy of privatisation? (6 Marks)
- (c) What problems has the Government of Uganda encountered in the current privatisation programme? (4 Marks)

**Question 7**

- (a) Outline the main features of the private sector in the Ugandan economy. (4 Marks)
- (b) What are the problems facing the private sector in Uganda? (5 Marks)
- (c) Identify three policies being used by the government to promote growth of the private sector. (6 Marks)