

P220/1

ECONOMICS

Paper 1

Nov./Dec. 2002

3 hours



UGANDA NATIONAL EXAMINATIONS BOARD

Uganda Advanced Certificate of Education

ECONOMICS

Paper 1

3 hours

INSTRUCTIONS TO CANDIDATES:

Answer five questions.

Section A is compulsory. Answers to this section should be concise.

Answer four questions from section B.

All questions in section B carry equal marks.

Credit will be given for use of relevant diagrams.

Any additional question(s) answered will not be marked.

SECTION A: (40 MARKS)

1. (a) (i) Given that the price of a commodity Y decreased from Shs15,000 to Shs 10.000 and the quantity demanded of a related commodity Z increased from 200,000 kg to 600,000kg, calculate the cross elasticity of demand for commodity Z.

(ii) State the relationship between commodities Y and Z.

- (b)(i) Distinguish between quasi - rent and economic rent.

ii) State any two factors that influence the level of economic rent.

- (c)(i) Define the term “marginal propensity to import”.

(ii) Given that a country’s Gross Domestic Product (GDP) increased from 100 million \$ to 300 million \$ and the value of imports increased from 25 million\$ to 75 million \$, calculate the marginal propensity to import.

- (d)(i) Distinguish between opportunity cost and marginal cost.

(ii) State the significance of opportunity cost in economics.

- (e)(i) Differentiate between interest and profit.

(ii) Calculate the compound interest earned on the principle sum of Sh 100,000 lent for a period of three years at an interest rate of 10% per annum.

- (f)(i) State the marginal productivity theory of wages.

(ii) Mention any three limitations of the marginal productivity theory of wages.

- (g)(i) What is meant by Value Added Tax (VAT)?

(ii) Give any three advantages of VAT in your country.

- (h)(i) State the principle of comparative advantage in international trade.

(ii) Give any three assumptions underlying the principle of comparative advantage.

(i)(i) Distinguish between a partial plan and a comprehensive plan.

(ii) Mention any two merits of a comprehensive plan.

(j)(i) What is meant by public debt management?

(ii) Mention any three objectives of public debt management.

SECTION B: (60 MARKS)

2. (a) Differentiate between price control and price discrimination.
(b) Examine the merits and demerits of price control in an economy.
3. (a) Distinguish between standard of living and cost of living.
(b) Why may per capita income not be a good indicator of standard of living?
4. (a) With help of a diagram, explain how a monopolist firm maximizes profits.
(b) Explain the implications of the existence of Absolute monopoly in a developing country.
5. (a) What are the assets and liabilities of a commercial bank?
(b) How are commercial banks able to achieve both liquidity and profitability?
6. (a) What are Trade unions?
(b) Under what circumstances are Trade Unions justified to demand for wage increase.
7. (a) Distinguish between centralized planning and indicative planning.
(b) What are the factors that influence the effectiveness of economic development planning in developing countries?
8. (a) Why may a government plan for a deficit budget?
(b) Explain the role of a government budget in an economy.

END.