

P220/1

ECONOMICS

Paper 1

Nov./Dec. 2001

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) What is the relationship between choice and opportunity cost?  
(ii) Give any two uses of the opportunity cost concept to a producer.
  
- (b) (i) State the law of variable proportions.  
(ii) Give any three assumptions underlying the law of variable proportions.
  
- (c)(i) What is meant by marginal propensity to save?  
(ii) Given that a rise in national income from £5,200 million led to an increase in savings from £ 400 million to £ 420 million, Calculate the marginal propensity to save.
  
- (d) (i) Distinguish between quasi rent and economic rent.  
(ii) Why are payments to land always considered economic rent?
  
- (e) Mention any four reasons why economic growth may not be accompanied by a corresponding rate of economic development.
  
- (f) (i) Differentiate between piece rate and time rate methods of wage payment.  
(ii) State two advantages of using the time rate method of wage payment.
  
- (g) (i) Explain the Malthusian theory of population.  
(ii) State any two limitations of the Malthusian theory of population.
  
- (h) (i) Distinguish between a fixed exchange rate and managing rate.  
(ii) Give any two merits of a fixed exchange rate.
  
- (i)(i) What is meant by economic planning?  
(ii) Differentiate between a comprehensive plan and a partial plan.
  
- (j) (i) Differentiate between devaluation of currency and depreciation of a currency.  
(ii) State any two merits of currency devaluation in an economy.

### **SECTION B: (60 MARKS)**

2. (a) Differentiate between price ceiling and price floor.  
(b) Explain the effects of price control in an economy.

3. Study the table below showing a country's price indices and answer the questions which follow.

Commodity (kg/lites)	1998 Average price (shs)	1998 Simple price (Shs)	1995 Average Price index	1995 Simple Price index	Weight	Weighted index
Sugar (kg)	800	100	1000	-	3	-
Salt (kg)	450	100	600	-	5	-
Maize (kg)	220	100	400	-	6	-
Meat (kg)	700	100	1200	-	2	-
Fuel (kg)	550	100	950	-	4	-

(a) Calculate the:

- (i) Simple price index for 1995,
- (ii) Weighted price index for 1995,
- (iii) Average weighted price index for 1995.

(b) Why is the computation of price indices difficult?

4. (a) What is meant by term "full employment"?

(b) Why is it difficult to attain full employment in an economy?

5. (a) Distinguish between import substitution and export promotion strategies of industrial development.

(b) Assess the implications of adopting the import substitution strategy of industrial developing countries.

6. (a) Given that the quantity of money in an economy is US \$ 1,000,000, its velocity of circulation is 20 and the number of transactions made are 250; calculate the general price level in the economy.

(b) Explain the limitations of Irving Fisher's Quantity Theory of money.

7. (a) Account for the balance of payments problem in developing countries.

(b) What measures should be taken to solve the problem of balance of payments deficit in an economy?

8. (a) Differentiate between tax base and taxable capacity.

(b) What are the advantages of relying on indirect taxes?

**END.**

