

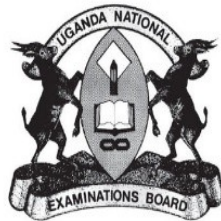
P220/1

ECONOMICS

Paper 1

Nov./Dec. 2004

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) State any four reasons why a consumer buys less of a commodity when its price falls.  
(b) Given that a country's stock of machinery is valued at Ug. Shs 100 billion at the beginning of the year, the total output from the machinery during the year was Ug. Shs 500 billion, depreciation costs during the year were 20%, calculate the:  
(i) Value of depreciation,  
(ii) net output  
During the year.
- (c)(i) What is meant by interest?  
(ii) Mention any three determinants of interest rates.
- (d) With examples, distinguish between injections into and leakages from a circular flow of income in an open economy.
- (e)(i) Differentiate between marginal product of labour and average product of labour.  
(ii) Mention any two factors which may increase the average product of labour in an economy.
- (f)(i) Distinguish between a pegged exchange rate and a flexible exchange rate.  
(ii) Give any two advantages of adopting a pegged exchange rate in an economy.
- (g)(i) What is meant by an inflationary gap?  
(ii) State three effects of inflationary gap in an economy.
- (h) State any four conditions necessary for the success of regional economic integration.
- (i)(i) What is meant by a public debt?  
(ii) Suggest three ways in which an external public debt may be cleared.
- (j)(i) What is fiscal policy?  
(ii) State any two sources of government revenue.

**SECTION B: (60 MARKS)**

2. (a) Explain the factors which determine the growth of a firm in an economy.  
(b) Why may a firm continue to produce even when its Average variable costs (AVC) are greater than its Average Revenue (AR).
3. (a) How are profits maximized in a monopoly market situation?  
(b) Examine the merits and demerits of monopoly in an economy.
4. (a) Describe the three approaches used in measuring national income.  
(b) What problems are encountered when compiling national income?
5. (a) Explain the Quantity Theory of Money.  
(b) What are the limitations of the Quantity Theory of Money?
6. (a) Explain the Malthusian theory of population.  
(b) To what extent is the theory relevant to your country?
7. Study the table below showing output levels of two countries in two commodities given the same units of labour, and answer the questions which follow.

Country	Commodities	
	Generators	Coffee
X	400	600
Y	100	300

- (a) (i) State the country with absolute advantage in the production of both commodities.  
(ii) Calculate the opportunity cost of producing each commodity in each country.  
(iii) In which commodity should each country specialize?
  - (b) What are the limitations of the comparative cost advantage theory in international trade?
8. (a) Distinguish between debt financing and taxation financing.  
(b) Present the advantages of debt financing over taxation financing.

**END.**