ECONOMICS SEMINAR GUIDE HELD ON SATURDAY 1ST.OCT. 2022

1.(a) What are public goods?

Public goods/free rider goods. These are goods usually provided by the government to a particular group of individuals and become available for others to use at zero/no extra cost and consumption by one person doesn't reduce the amount available for others to use. **Example;** national defence, street lights, public roads, law and order, public clocks.

(b) Explain the problems faced by government in providing public goods in Uganda.

- Limited funds / capital. This limits purchase of factor inputs needed for the establishment of public goods.
- Corruption. This limit proper financing of projects because implementing officials put funds to their personal use hence causing project failure.
- Poor infrastructure. This limits transportation of factor inputs to areas where they are needed due to increased costs.
- Political instability. This scares project implementors due to fear of loss of life and property.
- Limited government commitment. This is because implementors lack interest in what they do and government poorly supervise them hence causing losses to the government.
- Political interference in management. This is because government appoints managers who may not have the required skills and ability but because they belong to the right political affiliation.
- Limited labour skills. This leads to inefficiency which leads to provision of low-quality public goods.
- High rate of inflation. This increases the cost of project implementation in terms of acquiring factor inputs.
- Poor technology. This leads to inefficiency and provision of low-quality public goods.
- Poor land tenure system. This limits accessibility to more land for expansion of projects such as road construction.
- High level of bureaucracy / red tape. This delays decision making and implementation of projects which increases costs of providing public goods.
- Occurrence of natural calamities. This leads to diversion of funds from implementation of projects towards helping people affected by such disasters like floods, landslides etc.
- Foreign interference. This limits provision of specific projects at a particular time because foreign countries give assistance with strings attached.
- Poor management skills. This leads to inefficiency and provision of low-quality public goods.

2.(a) Differentiate between price elasticity of demand and elasticity of demand.

Elasticity of demand is the measure of degree of responsiveness of quantity demanded of a commodity to changes in other factors that affect demand for the commodity.

While;

Price elasticity of demand (PED) is the measure of degree of responsiveness of quantity demanded of a commodity to changes in the price of the commodity.

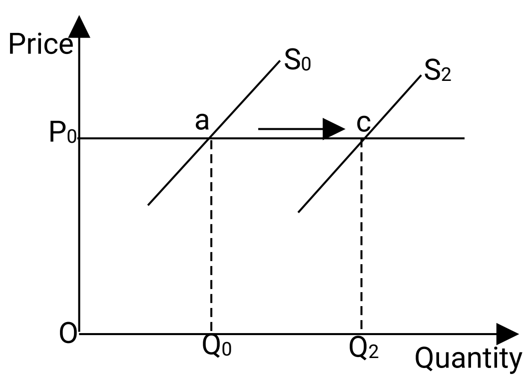
(b) Explain the factors that influence price elasticity of demand.

- Income of the consumer.
- Availability of substitutes.
- Level of addiction in use of the commodity (habit in use of the commodity).
- Nature of the commodity (perishable or durable).
- Degree of necessity in the use of the commodity.
- Proportion of consumer's income spent on the commodity.
- Level of advertisement.
- Level of convenience in getting the commodity.
- Time period.
- Possibility of postponement of demand for a commodity.
- Seasonal changes.
- Expectation of price changes.
- Number of uses to which the commodity can be put.
- Availability of complements.

3. (a) Differentiate between increase in supply and increase in quantity supplied.

Increase in supply is a situation where **more** of a commodity is supplied due to **favourable changes** in factors affecting supply at a **constant price**.

Illustration of increase in supply

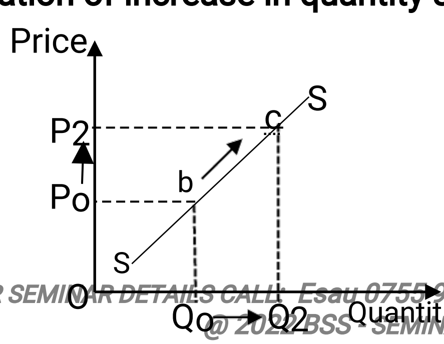


a to c = increase in supply

While

Increase in quantity supplied is a situation where **more** of a commodity is supplied due to an **increase in price of the commodity** other factors affecting supply remaining constant.

Illustration of increase in quantity supplied



b to c = increase in quantity supplied

(b) Account for the instability in supply of commodities in an economy.

- **Change** in prices of **competitively supplied** commodities e.g. butter and cheese.
- **Change** in prices of **jointly supplied** goods e.g. beef and hides.
- **Change** in the costs of production.
- **Change** in goals of a firm/producer.
- **Change** in state/level of technology.
- **Change** in natural factors especially in agricultural sector.
- **Change** in government policies of subsidization and taxation/government policy on production.
- **Change** in number of producers/firms.
- **Change** in the level of demand for a commodity/change in the market size.
- **Change** in availability of factors of production/raw materials/inputs.
- **Change** in the efficiency of factors of production.
- Expectation of future price **changes** of the commodity.
- **Change** in the level of development of infrastructure.
- **Change** in political climate.

4.(a) Explain the contribution of capital in the development of Uganda

- Capital improves quality of the final output.
- Promotes resource utilization / facilitates optimum use of resources.
- Capital promotes technological transfer / development.
- Promotes specialization in production.
- Facilitates the development of infrastructures.
- Capital leads to increased output, hence economic growth.
- It increases efficiency/productivity of other factors of production.
- It promotes trade and exchange / it monetizes the economy.
- Capital facilitates research.
- Capital facilitates further capital accumulation/capital increases the level of investment.
- Capital promotes industrialization.
- Capital is an engine of economic reforms.
- Capital improves labour skills.
- Capital creates employment opportunities.
- Capital reduces economic dependence.

(b) Examine the factors that affect capital accumulation in an economy.

- Government policy on investment:
- Interest rate on loans:
- Level of entrepreneurial skills:
- Degree of accountability:
- State of technology:
- Political climate:

- Level of savings:
- Labour skills:
- Size of the market:
- Size of the capital stock:
- Level of development of infrastructure:
- Population growth rate:
- Rate of inflation:
- Nature of land tenure system.
- Attitude towards work.

(c) What measures have been taken to increase capital formation?

- Labour skills have been improved.
- Infrastructure has been developed/improved
- Political stability has been maintained
- Investment incentives have been provided to investors
- Entrepreneurial skills have been improved.
- Markets have been expanded/ widened.
- Land reforms have been adopted.
- There has been further privatization of public / Government enterprises.
- Savings have been encouraged to provide funds for investment.
- Inflation has been controlled.
- Conservatism has been reduced (through sensitization)
- Technology has been improved.
- The economy has been further liberalised.
- Population growth rate has been controlled.
- Affordable capital / credit has been provided to investors.
- Corruption has been fought/accountability has been improved.

5.(a) Discuss the factors that give rise to monopoly in an economy.

- Long distance between firms
- Merging of firms
- Patent/copyrights.
- Exclusive ownership and control of a strategic (natural) resources/inputs.
- Possession of exclusive technique of production by a firm
- Act of parliament /parliamentary statutes
- Small market size
- Limit pricing policy/aggressive price wars
- Huge initial capital requirement
- Long periods of training required e.g. architects , accountants e.t.c
- Possession of unique talents
- Product differentiation
- Protectionism in international trade/foreign trade barriers(restrictions)

(b) Suggest measures that can be used to reduce monopoly power in an economy.

- Limit the duration of copy and patent right privileges / reduce in the period of patent rights
- Develop infrastructure

- Strengthen bureau of standards
- Adopt anti-monopoly laws e.g. (illegalize merging of firms)
- Promote creation of consumer associations
- Tax monopolists by use of specific and lump sum taxes
- Liberalize the economy / trade
- Widen market to attract new firms
- Provide affordable capital for the establishment of rival firms
- Provide tax concessions to weak firms/subsidise weak firms
- Privatize state monopolies.
- Undertake price control i.e. maximum price.
- Nationalize private monopolies.
- Set up production quotas for monopolists.

6.(a) Distinguish between perfect and imperfect oligopoly.

Perfect / Pure oligopoly. This is a market structure where there are **few large firms** with many buyers dealing in **homogeneous** products.

While;

Imperfect / differentiated oligopoly. This is a market structure where there are **few large firms** with many buyers dealing in **differentiated** products.

(b) Outline six forms of non-price competition used by oligopoly firms in Uganda.

N.B. Non price competition is one where firms expand their market share by not involving reduction in prices for their products.

- Use of widespread persuasive advertisement over radios and television.
- Provision of aftersales services e.g. free transport services, cleaning windscreens at petrol stations.
- Offering gifts to customers such as soap, scholastic materials, T-shirts, key holders.
- Opening up branches or distribution points
- Sponsoring sports events and this is common with MTN, Airtel, Crown bottlers etc.
- Use of appealing brands, trademarks and slogans to attract many customers, e.g. MTN Everywhere You go.
- Distributing free samples of commodities to customers so as to attract them.
- Quality improvement of products produced by firms for example unleaded petrol by Shell.
- Special packaging of commodities by using different designs to attract more customers.
- Provision of credit facilities or installment selling.
- Organising raffle draws and consumer games where winners are rewarded highly.
- Organising trade fairs and exhibition to make customers aware of the product.
- Use of one stop shopping centres e.g. shopping centres at petrol stations.

(c) Explain advantages and disadvantages of oligopoly firms in Uganda.

Merits of oligopoly markets:

- Charge low prices to consumers.
- Ease consumer budgeting due to price stability.
- Widen consumer choices due to production of a variety of goods.
- Provide employment opportunities.
- Promote development of infrastructure.
- Contribute revenue to government.
- Increased innovations and inventions due to competition.
- Enable firms to enjoy abnormal profits.
- Promote economic growth.
- Consumers benefit from non-price competition.
- Promote utilization of resources.

Demerits of oligopoly markets:

- Distortion of consumer's choices through advertisement.
- Exploitation of consumers through overcharging.
- High prices are charged due to intensive sales promotional activities.
- Duplication hence wastage of resources.
- Worsen income inequality.
- Collapse of small firms due to competition.
- Limited employment opportunities created.
- There is under-utilisation of resources.
- There is limited variety of goods in perfect oligopoly market.
- There is limited entrepreneurial development.

7. (a) What is the significance of computing National income statistics in an economy.

- NY figures are used for economic analysis and planning.
- It is used to show level of development by way of income per capita.
- It is used to indicate rate of economic growth and development.
- It is used to solicit for foreign aid.
- NY figures are used for international comparison with other.
- It is used for comparison purposes over time e.g. standards of living within the country.
- It is used to show income distribution/resource distribution.
- It is used to show expenditure patterns within the country.
- It is used to identify the leading and lagging sectors in the country.
- It is used to determine the extent of dependence on other economies.
- It is used to determine the level of resource exploitation/utilization.

(b) Explain the challenges faced when computing National income statistics.

- Difficulty in determining the boundary of production.
- Difficulty in valuing subsistence output.
- Difficulty in valuing unpaid for services e.g. house wife services, self-provided services.

- Limited statistical data / limited information.
- Problem of double counting.
- Limited skilled labour.
- Difficulty in determining net income from abroad.
- Problem of statistical errors (errors of omission and commission)
- Problem of price changes.
- Difficulty in calculating the value of depreciation.
- Problem of determining government expenditure.
- Problem of valuing inventories and work in progress.
- Problem of illegal activities.
- Limited facilities used in data collection.

8.(a) Differentiate between accelerator and multiplier theories of investment.

Multiplier is the number of times an initial change in expenditure multiplies itself to give a final change in National income.

Multiplier = $\frac{\text{Change in NY}}{\text{Change in expenditure}} = \frac{\Delta Y}{\Delta E}$ OR Multiplier $= \frac{1}{\text{MPS}}$ *or* $\frac{1}{1 - MPC}$

While;

Accelerator principle refers to the number of times an initial change in consumption expenditure multiplies itself to give a final change in investment.

$$\text{Accelerator principle} = \frac{\text{Change in investment expenditure}}{\text{Change in consumption expenditure}}$$

(b) Discuss the factors that influence effective operation of investment multiplier in an economy.

- Availability of investment incentives /government policy on investment.
- Size of the market.
- Level of infrastructural development.
- Labour skills.
- Size of capital stock.
- The nature of land tenure system.
- Level of technology.
- Level of entrepreneurial abilities/skills.
- Political atmosphere/climate.
- Rate of inflation
- Level of accountability.
- Interest rate on loans.
- Level of savings.
- Level of conservatism.
- Level of monetization of the economy.

9. (a) Examine the factors that affect the rate of economic growth in Uganda.

- Government policy on investment/availability of investment incentives.

- Level of resource exploitation/utilization.
- Level of entrepreneurial skills.
- Degree of accountability.
- Level of technology/state of technology.
- Political climate/atmosphere.
- Level of savings.
- Attitude towards work.
- Labour skills.
- Market size.
- Size of capital stock/availability of capital.
- Level of development of infrastructure.
- Population growth rate.
- Rate of inflation.
- Nature of land tenure system.
- Level of monetization of the economy / size of subsistence sector.

(b) Suggest measures to promote the rate of economic growth in Uganda.

- Investment incentives should be provided to investors.
- Resource exploitation should be increased.
- Entrepreneurial skills should be improved.
- Accountability should be improved.
- Technology should be improved.
- Political stability should be maintained.
- Savings should be encouraged.
- Labour skills should be improved.
- Conservatism should be fought (through sensitization)
- Markets should be widened.
- Affordable capital should be provided to investors.
- Infrastructure should be improved
- Population growth rate should be controlled.
- Inflation should be controlled.
- Land reforms should be adopted.
- Practice public enterprises.
- Modernize agriculture.
- Liberalise the economy.
- Diversify the economy.

10.(a) Discuss the benefits of economic growth to an economy

- It increases government revenue.
- Promotes development of infrastructure.
- It improves balance of payment position.
- It increases employment opportunities.
- It promotes technological development/transfer.
- It improves labour skills.
- It promotes industrialization.
- It widens consumer choices.
- It controls inflation.

- It promotes exploitation of idle natural resources.
- It reduces dependence on other countries.
- It reduces conservatism.

(b) Account for low level of economic development in developing countries.

- Unfavourable government policy on investment.
- Low level of entrepreneurial skills.
- Low level of accountability/corruption
- Low level of technology/poor technology
- Political instability.
- Low level of savings.
- High degree of conservatism.
- Low labour skills (limited labour skills)
- Small market.
- Limited capital.
- Poor infrastructure.
- High population growth rate.
- High rate of inflation.
- Poor land tenure system.

11.(a) Distinguish between labour-saving and capital-saving techniques of production.

Capital-saving techniques of production is a production method which employs relatively more units of labour than other factors of production especially capital.

While;
Labour-saving techniques of production is a production method which employs relatively more units of capital than other factors of production especially labour.

(b) Explain the arguments for and against adopting labour- saving techniques of production.

Arguments for adopting labour- saving techniques of production.

- It leads to production of high quality output.
- It saves time and it is less tiresome.
- It increases output.
- It improves the skills of workers.
- It leads to technological development / transfer.
- It minimizes the size of the wage bill paid to labour in the long run.
- It facilitates exploitation of resources.
- It facilitates the development of infrastructure.
- It creates employment opportunities in the long run.
- It reduces labour strikes.
- Standardization of output is possible.

Arguments against adopting labour- saving techniques of production.

- It leads to technological unemployment.
- It worsens income inequality.
- It causes social costs / pollution to the public.

- It leads to over exploitation of natural resources which leads to resource exhaustion.
- Leads to wastage of resources due to limited market.
- Leads to profit repatriation.
- It requires complex skills which may not be readily available.
- Machines are not applicable in certain activities where human judgment is required.

12. (a) Differentiate between import substitution industries and export promotion industries.

Import substitution **industries** are **industries** set up internally to produce goods which were previously/formerly imported.

While;

Export promotion **industries** are **industries** set up to process and manufacture goods for foreign markets.

(b) Assess the impact of import substitution industries in Uganda.

Advantages of import substitution industries (they…..)

- Improve BOP position / save scarce foreign exchange.
- Promote development of entrepreneurship skills.
- Generate government revenue.
- Create more employment opportunities.
- Encourage exploitation of local resources.
- Promote self-reliance.
- Promote economic growth.
- Control imported inflation.
- Promote the development of infrastructure.
- Facilitate the development of local skills.
- Promote technological transfer/development.
- Encourage capital inflow.
- Promote growth of industrial sector.

Disadvantages of import substitution industries.

- There is rural urban migration and its associated problems.
- There is social costs e.g. pollution.
- Poor quality goods are produced.
- Firms operate at excess capacity.
- There is monopoly tendencies.
- There is increased government expenditure on subsidization of firms.
- There is concentration on production of consumer goods at the expense of capital goods.
- Cause technological unemployment.
- Result into low government revenue.

- It worsens balance of payment problem.
- There is production of limited variety of goods.
- Accelerate capital outflow.
- High prices of final products.
- Promote external resource dependence.

13. (a) What are features of the agricultural sector in Uganda?

- Mainly rural based
- Mainly depend on nature.
- Mainly use/employ semi-skilled and unskilled labour.
- Mainly produce poor quality output.
- Mainly produce for the local market.
- Dominated by subsistence production.
- Mainly use simple tools e.g. hoes, pangas.
- Mainly carried out on a small scale.
- Mainly depend on family labour.
- Mainly food stuffs are produced (narrow range of cash crops are produced)
- The quantity of output is generally low.
- There is a narrow range of products for export.

(b) Explain the factors that affect agricultural development in Uganda.

- Availability of investment incentives
- Size of the market.
- Level of infrastructural development/state of infrastructure.
- Labour skills.
- Size of capital stock.
- The nature of land tenure system.
- Level of technology/state of technology.
- Level of entrepreneurial abilities/skills.
- Political atmosphere/climate.
- Rate of inflation
- Level of accountability.
- Level of topography
- Natural factors

14. (a) Why is there need for agricultural modernization in less developed countries?

N.B: Agricultural modernization is the **changing** of **agricultural sector** from **subsistence** production to **commercialized** high yielding production.

Reasons for modernization of agriculture

- To reduce seasonal unemployment.
- To increase output hence economic growth.
- To improve balance of payment position.
- To reduce on income inequality.
- To develop labour skills.
- To increase incomes of farmers.
- To improve quality of products.
- To generate more revenue to the government.

- To promote growth of industrial sector.
- To attain price stability / to control structural inflation.
- To facilitate exploitation of resources.
- To promote food security.
- To improve terms of trade.
- To widen consumer choices.
- To promote development of infrastructure.
- To promote technological development.

(b) What are the constraints to agricultural modernization in developing countries?

- Limited capital.
- Limited skilled labour.
- Poor technology.
- Limited market.
- Conservatism of farmers.
- Poor infrastructure.
- Poor land tenure system.
- Low levels of accountability / corruption.
- Political instability.
- Low levels of entrepreneurial skills.
- Unfavourable natural factors
- Low and fluctuating prices of agricultural products.
- Unfavourable topography.

15.(a) Explain the Keynesian theory of unemployment.

The Keynesian theory of unemployment states that unemployment arises due to the **fall/ deficiency in effective aggregate demand** for final goods especially in times of economic **recession or depression**.

Due to low demand for final products, firms reduce their output, income levels fall, investment is discouraged and thus **less capital and labour are employed.**

The major remedy according to J.M, Keynes is **increasing aggregate demand.** This could be by: reducing direct taxes, using expansionary monetary policies, increasing government expenditure, subsidizing consumers, increasing wages and salaries, encouraging private investments.

(b) Assess the relevance of the Keynesian theory of unemployment in developing countries?

The Keynesian theory of unemployment is *__relevant__* in the following ways:

- At times unemployment in developing countries results due to a fall in aggregate or effective demand.
- There are elements of industrialization in developing countries hence the theory applies in the industrial sector.
- Provision of investment incentives such as granting tax incentives and subsidies to producers increases employment opportunities in developing countries as stated by Keynes.

- Use of expansionary monetary policies to increase purchasing power in developing countries has tended to increase employment levels as stated by Keynes.
- Continued supply of co-operant factors for labour increases employment opportunities in the long-run hence the theory becomes relevant.

However the Keynesian theory of unemployment of *limited relevance* in developing countries reasons being:-

It is mainly concerned with demand deficiency yet unemployment in developing countries is basically from the supply side.

- It mainly affects industrialized economies yet economies of developing countries are agro-based.
- It is based on existence of a strong and big private sector yet the private sector of developing countries is small and weak.
- Keynes prescribes policies which increase aggregate demand and reduce unemployment problem but these policies may be inflationary in developing countries.
- It is applicable under conditions of full employment of resources which conditions are not found in developing countries.
- It is based on assumption of highly monetized economies yet economies of developing countries are basically subsistence.
- It assumes functional Money, product and factor markets yet such markets are underdeveloped in developing countries.
- Firms in developing countries are faced with structural rigidities in the form of industrial breakdown, infrastructural breakdown and technological breakdown, and thus tend not to respond quickly and effectively to changes in demand conditions.
- It emphasizes investment multiplier as a contributor to employment creation yet in developing countries it is the export multiplier.
- It is based on a closed economy yet economies of developing countries are open.
- It ignored the problem of high marginal propensity to import which reduces the multiplier effect and thus causing unemployment.

16. (a) Why is it necessary to control unemployment in developing countries?

N.B: Here we extract the reasons from the disadvantages / demerits of unemployment in the economy.

- To reduce the dependence burden.
- To discourage rural-urban migration and its associated evils.
- To reduce crime rates
- To increase government revenue.
- To increase production / to promote economic growth.
- To reduce income inequality.
- To control brain drain.
- To reduce political tension / unrest/instability.
- To reduce government expenditure on the unemployed.
- To encourage investment in education.
- To increase aggregate demand for goods and services.

- To promote level of acquired skills.
- To reduce family instability.
- To Promote utilization of productive resources

(b)What measures should be taken to reduce unemployment in developing countries?

- Education reforms should be adopted
- Land reforms should be adopted.
- Infrastructure should be improved.
- Political stability should be maintained.
- Agriculture should be modernized.
- Affordable capital/ credit should be provided to investors.
- Population growth rate should be controlled.
- Further liberalization of the economy should be undertaken.
- Disadvantaged groups of people should be supported/ empowered.
- Investment incentives should be provided to investors.

- The economy should be diversified.
- Small scale industries should be set up / established.
- Existing jobs should be advertised
- Markets should be widened
- Appropriate technology should be adopted

17.(a) Account for the persistent cost push inflation in developing countries.

N.B: Cost push inflation is the persistent increase in the general price level of goods and services due to increase/rise in the costs of production.

Causes of cost-push inflation.

- Rising prices of raw materials.
- Rising wages and salaries.
- Rising tax levels on firms.
- Rising costs of rent / rising storage costs.
- Rising costs of advertisement / sales promotion.
- Rising transport costs.
- Rising prices of fuel / power / energy.
- Increasing costs of borrowing / interest rates.

N.B: As the costs of production increase, producers also react by increasing prices of commodities in order to recover the heavy expenses incurred during production which causes cost push inflation.

(b) Examine the effects of hyper inflation in an economy.

- It discourages savings due to rapid loss of money value.
- There is loss of confidence in the local currency.
- The fixed income earners suffer greatly as real income reduces.
- Lenders (creditors) stand to lose.
- There is unemployment as some firms close down.

- It makes planning difficult.
- It discourages local and foreign investors / discourages investment.
- It causes uneven distribution of income / it worsens income inequalities.
- It encourages illegal activities such as corruption, bribery and smuggling.
- People are strained in an attempt to cope with the rising cost of living.
- Government becomes unpopular.
- It leads to industrial unrest due to constant demand for wages.
- It leads to production and consumption of poor quality goods.
- It results into brain drain.
- It worsens the B.O.P position.
- It promotes speculation.
- Results into collapse of some firms
- Results into capital outflow.

18. (a) Account for persistent increase in the general price levels of goods and services in Uganda.

- Excessive issuance of currency.
- Unfavourable natural factors (Natural hazards).
- Speculation by businessmen/traders.
- Greed (desire) for excessive profits by traders/producers.
- Importation of goods from countries experiencing inflation
- Break-down of infrastructure.
- Political instability which disrupts (limits) production in some areas of the country.
- Rising costs of production/Increase in production costs.
- Excessive government expenditure.
- Depreciation of the local currency/Declining value of the local currency relative to other currencies.
- Excessive inflow of incomes from abroad.
- Excessive exportation of essential goods.
- Excessive or uncontrolled credit creation.
- Excessive borrowing by Government from the Central bank.

(b) Why is there need to control the persistent increase in the general price level of goods and services in Uganda

- To maintain people's confidence in the currency
- To encourage people to save
- To improve B.O.P position/to discourage capital outflows
- To control unemployment
- To control income inequalities
- To ease planning in the economy
- To control brain drain

- To ensure that people are less strained since the C.O.L is low
- To make the government in power popular
- To promote production of high quality goods
- To encourage lending
- To discourage illegal activities
- To protect fixed income earners
- To reduce industrial strikes/unrest
- To encourage investment/to encourage local and foreign investment

19. (a) Distinguish between galloping inflation and creeping inflation.

Creeping / mild / gradual inflation. This is inflation (one) where persistent increase in the general price level increases at **a slow rate**, usually not exceeding 10% per annum (year).

While;

Galloping / run away / hyper inflation. This is inflation (one) where persistent increase in general price level increases at a **very high rate**, exceeding 10% per annum.

(b) What measures may be adopted to control inflation in developing countries?

- Direct taxes should be increased.
- Government expenditure on provision of non-essential goods should be reduced.
- Further liberalization of the economy can be undertaken.
- Incentives should be provided to investors to increase output.
- Infrastructure should be improved.
- A restrictive monetary policy should be implemented e.g. sale of government securities.
- Government should control the issuance of currency.
- Modernization of agriculture should be undertaken to (increase supply of food items in the country).
- Further privatization of Public enterprises should be undertaken.
- Importation of goods from cheaper sources should be encouraged
- The political climate should be improved.
- Government borrowing from the central bank should be reduced.
- Indirect taxes on essential goods should be reduced.
- Control the export of certain essential goods.
- Establishment of import substitution industries should be encouraged.

20. (a) Given that the final amount of credit created is Shs 150,000 billion and the cash ratio is 0.5%. Calculate the initial deposit.

$$\text{Initial deposit} = \frac{\text{Total credit / deposit created}}{\text{the credit multiplier / bank deposit multiplier}}$$

$$\text{Credit multiplier} = \frac{1}{\text{cash ratio}} = \frac{1}{0.5\%} = \mathbf{200} \text{ times}$$

$$\text{Initial deposit} = \frac{\text{Shs } 150{,}000 \text{ billion}}{200}$$

$$= \underline{\text{Shs. } 750 \text{ billion or Shs.} 750{,}000{,}000{,}000}$$

(b) Explain the factors that affect the ability of commercial banks to create credit.

- Interest rate on loans.
- Level of investment opportunities.
- Nature of distribution of Commercial Banks.
- Level of liquidity preference
- Availability of credit worthy borrowers.
- Level of monetization of the economy (Size of the subsistence sector)
- Degree of accountability (by bank officials)
- Size of the cash ratio
- Government monetary policy (The Central bank's monetary policy).
- Knowledge about services provided by commercial banks.
- Availability of collateral security
- Political climate
- Rate of inflation
- Size of bank deposits
- Degree of uncertainty

21.(a) Describe the functions of commercial banks in Uganda.

- Accepting deposits.
- Advancing loans to customers.
- Providing easy means of payment e.g. cheques, bank drafts.
- Acting as custodians of customers' valuables e.g. land titles, contract documents e.t.c.
- Providing advice to the investors e.g. making investment choices.
- Exchanging of currencies of different countries.
- Acting as trustees and executors of property and will of their customers.
- Issuing letters of credit and act as referees to their clients
- Underwriting shares and debentures of companies as well as discounting bills of exchange.

(b) Explain the methods used by the central bank to regulate credit creation in Uganda.

- Bank rate
- Legal reserve requirement.
- Variable reserve requirement /Cash Ratio.
- Margin requirement.
- Rationing of credit.
- Selective credit control.
- Special deposits (supplementary legal reserve requirement).
- Moral suasion.
- Open market operation.

22. (a) Distinguish between bi-lateral and multi-lateral aid.

Distinguish between bi-lateral aid and multi-lateral aid.

Bi-lateral aid. This refers to direct transfer of funds and resources from one country to another.

While;

Multi-lateral aid. This refers to the indirect transfer of funds and resources to a country through the international aid agencies such as International Monetary Fund (IMF), World Bank.

(b) Explain the role of foreign aid in the economic development of Uganda.

- It closes the foreign exchange gap/inflow of foreign exchange.
- It closes or fills the savings – investment gap.
- It closes or fills the skilled man-power gap.
- It closes/fills the technological gap/promotes technological transfer.
- It closes or closes the government revenue – expenditure gap.
- It reduces the effects of catastrophes / calamities.
- It facilitates the development of infrastructure.
- It facilitates the creation and provision of employment opportunities.
- It strengthens international relations (between the donors and the recipient country).
- It accelerates industrial growth / it diversifies the economy.
- It promotes political stability.
- It promotes economic growth.
- It encourages exploitation of resources avoiding wastage.
- It increases local skills through training.

(c) What are the problems of overlying on foreign aid in Uganda?

- Worsens balance of payments problem due to repayment obligations.
- Denies nationals of essential commodities due to high debt servicing that calls for increased taxation.
- Causes technological unemployment in recipient country due to automation
- Results into economic domination of the economy.
- Results into political domination of the economy by foreigners.
- Results into income repatriation which robs a country of its scarce resources.
- Results into brain drain due to aid given in form of scholarships.
- Results into erosion of socio-cultural values in Uganda due to importation of western culture.
- Distorts economic planning because aid given is inadequate, uncertain and tied.
- Kills local initiatives / promotes laziness as recipients always expect more assistance from donors.
- Leads to underutilization of available domestic resources.
- Subjects the economy to inappropriate and undesirable decisions.

- Encourages extravagant use of resources as the country expects more assistance from donor countries.

23. (a) Explain the attributes of a good tax.

- It should be certain.
- It should be convenient.
- It should be cheap/economical/efficient
- It should be comprehensive
- It should be productive
- It should be impartial/neutral
- It should be equitable/fair
- It should be consistent
- It should be elastic
- It should be simple

(b) Assess the role of taxation to the economic development of Uganda.

Positive role of taxation:

- It controls inflation
- It promotes or accelerates economic growth.
- It promotes equitable distribution of income/reduces income inequality.
- Reduces unemployment.
- It improves the balance of payment position
- It protects infant industries/firms from foreign competition.
- It mobilizes foreign aid.
- It discourages production and consumption of undesirable /demerit /harmful commodities
- It reduces regional imbalances in development.
- It raises revenue for government
- It influences investment/influences resource allocation
- It reduces economic dependence
- It regulates government expenditure.
- It manages the public debt.

Negative role of taxation :

- High taxation discourages investment.
- It discourages effort and hard work.
- It discourages savings.
- It reduces welfare of the individuals due to reduced consumption.
- It leads to resource misallocation.
- It encourages trade mal-practices e.g. smuggling.
- Indirect taxes tend to be inflationary.
- It creates resentment of the public that may erode the popularity of the government.
- It reduces the volume and benefits of trade / it leads to retaliation in trade.
- Regressive taxes widen/worsen income inequality.

- It leads to inefficiency of infant industries because such firms are protected from external competition.

24. (b) Account for the persistent budget deficit in Uganda.

- Frequent occurrence of natural disasters/hazards that require heavy emergency funding.
- Persistent/heavy debt servicing and repayment.
- Heavy expenditure on defence due to political instability
- High level of corruption and embezzlement of public revenue/ low level of accountability.
- Heavy/high administrative expenditure on civil servants and politicians.
- High/rising costs of infrastructural development.
- Heavy expenditure on external commitments e.g. contributions made to international organizations
- Over ambitious planning.
- Limited non-tax sources of public revenue/low revenue from non-tax sources.
- Few tax bases/narrow tax base.
- Weak tax administration.
- Low taxable capacity.

(b) Suggest measures that should be taken to reduce government expenditure.

- Political stability should be maintained.
- Corruption should be fought.
- Population growth rate should be controlled.
- Cost sharing in the provision of basic services should be encouraged.
- Over ambitious planning should be avoided.
- Inflation should be controlled.

- Debt relief should be appealed for.
- Foreign missions and other external commitments should be reduced /restructured.
- Minimize acquisition of unproductive debts.
- The size of the public/civil service should be reduced.
- Privatize public enterprises.

25. (a) Distinguish between tariff and non-tariff barriers.

Tariff barriers. These are restrictions put to control foreign trade / international trade through use of taxes.

While;

Non-tariff barriers. These are restrictions put to control foreign trade / international trade which do not involve the use of taxes.

(b) What are the various forms of protectionism used in international trade?

- Manipulation of exchange rates
- Administrative controls
- Total ban/trade embargo

- Import licensing
- Quotas
- Quality control measures
- Subsidisation of domestic industries.
- Tariffs

(c) Assess the impact of restricting imports by government in Uganda.

Positive impacts/Arguments for/merits of restricting imports in Uganda include:-

- Protects infant industries (use of high import duties)
- Discourages importation of demerit goods e.g. cigarattes.(use of high import duties)
- Reduces dependence on imports /promotes self-reliance
- Reduces B.O.P deficit (tariffs and non-tariff barriers reduce volume and expenditure on imports)
- Discourages dumping (use of high tariffs on imports)
- Controls imported inflation (use of licenses selectively to allow importation where there is no inflation)
- Increases revenue to government (tariffs on imports and import licenses)
- Creates employment opportunities at home (restrictions on imports encourages investors to produce goods locally and create jobs in the new industries.)
- Promotes economic growth.
- Encourages use of local resources/encourages resource utilization (high tariffs on imported raw materials makes them expensive forcing local producers to use local resources)
- Reduces political domination by foreigners.

Negative impacts/Arguments against/Problems that arise out of restricting imports include

- It gives rise to growth and development of monopoly and its evils
- It encourages inefficiency in protected industries.
- It subjects nationals of the country to consumption of highly priced goods.
- It forces nationals of the country to consume poor quality products.
- Limited variety of goods in the domestic market due to total ban
- Protected firms tend to remain infant due to lack of competition
- Loss of revenue from import duties due to use of total ban and quotas
- Encourages trade mal-practices e.g. smuggling due to banning and high import duties
- Discourages private investments (due to bureaucratic delays involved in getting licenses, forex and import permits)
- Reduces volume of trade (import quotas reduce quantity of goods available to people
- Encourages retaliation from trading partners thus limiting gains from trade)
- Discourages specialization because it emphasizes need for self-reliance.
- Increases government expenditure (on subsidization of domestic firms)

26. (a) Account for the persistent Balance of Payments deficit in Uganda.

<u>**N.B**</u>. B.O.P is the difference between country's earnings/receipts/incomes from abroad and expenditure/payments abroad during a given time.

Hint: Explanation must bring out low foreign exchange or high import expenditure.

- Low volume of exports.
- Exportation of poor / low quality output.
- Exportation of mainly primary products such as agricultural raw materials with low value added.
- Political instability leading to heavy expenditure on importation of military hardware.
- Importation of highly priced products.
- Protectionist policies of MDC's / trade restrictions in export markets.
- Prices of exports are externally determined by the major buyers / low bargaining power of LDCs.
- Heavy government expenditure abroad e.g. diplomatic missions.
- Limited variety of exports.
- High marginal propensity to import
- High levels of profit and wage repatriation / high rate of capital outflow.
- Market flooding due to production of similar products by different countries.
- High expenditure on payment of external debts.

(b) Suggest measures that should be adopted to reduce Balance of payment deficit in Uganda.

<u>**Hint**</u>**:** Explanation must bring out increase in export earnings or fall in import expenditure.

- Establish import substitution industries.
- Adopt trade restrictions to discourage imports e.g. imposing high import duties.
- Maintain political stability / create a peaceful and conducive political climate.
- Diversify export markets i.e. joining or forming regional integrations.
- Undertake manpower training so as to reduce foreign exchange expenditure on expatriates
- Restructure foreign missions.
- Strengthen commodity agreement.
- Appeal for debt relief or debt conversion.
- Diversify exports.
- Increase volume of exports.
- Improve quality of exports.
- Encourage depreciation of currency.
- Negotiate for removal of trade restrictions on exports.

27. (a) Differentiate between absolute advantage and comparative advantage theory of costs.

The principle of **absolute** advantage states that "given two countries, two commodities and the same amount of resources, **one country is able to produce both commodities more cheaply** compared to the other country.

While;

The principle of comparative advantage states that "given two countries, two commodities and the same amount of resources, **a country should specialize in production of a commodity where it incurs the lowest /least opportunity cost**

compared to the other country.

(b) Explain the limitations of comparative advantage theory of costs.

- Assumes two commodities but there are many commodities in international trade.
- Assumes two countries yet there are many countries involved in international trade.
- Assumes full employment of resources yet in LDCs there is unemployment and underemployment of resources.
- Assumes constant technology which is not true because technology keeps changing over time.
- Assumes barter trade yet there is monetary exchange.
- Assumes that demand is elastic yet demand for agricultural products is inelastic.
- It assumes free trade yet there are trade barriers/restrictions in international trade.
- It assumes no transport costs which is not true because transport costs are reflected in the prices of commodities.
- It assumes absence of currency restrictions yet countries have different currencies which creates differences in exchange rates.
- It assumes mobility of factors of production internally and immobility of factors of production externally yet there are some degree of mobility of factors of production internationally and immobility of factors of production internally.
- It ignores the existence of the law of diminishing returns yet the law exists.
- It assumes constant comparative advantage among countries yet this may change with time as new resources are discovered and old ones get exhausted.

28.(a) Describe the features of Uganda's population structure.

- The population is **mainly** rural-based.
- There is **high** population growth rate.
- **Dominated** by the young.
- The females are **more** than the males.
- **Majority** of the population is semi-skilled and unskilled.
- There is **a high level** of illiteracy.
- The productive labour force of the population is **mainly** engaged in primary production e.g. agriculture.

- **Big** size of the population lives below the international poverty line.
- There is **uneven** spatial population distribution in Uganda.

(b) Assess the implication of Uganda's population structure.

Positive implications of Uganda's population structure

- High market potential.
- High potential for labour force.
- High tax potential.
- High potential for increased resource utilization.
- There is potential for innovations and inventions.
- There is high initiative to work hard to sustain the predominantly dependent population.
- It is an incentive for massive investment.
- It awakens the government to its responsibility of providing the necessary infrastructure.

- It encourages labour mobility.

Negative implications Uganda's population structure

- There is low labour productivity.
- There is high dependence burden.
- It results into unemployment and underemployment.
- There is limited domestic market for goods and services.
- Worsens Balance of Payment problems.
- The available infrastructure is over strained.
- There is high government expenditure on provision of social services.
- Worsens rural urban migration and its associated problems.
- Worsens income inequality.
- It results into brain drain.
- It results into high social costs inform of pollution.
- Effective planning for the population becomes difficult.
- There is quick resource exhaustion / depletion.

29. (a) What are the objectives of labour organizations in Uganda?

N.B: Labour organization/trade union is an **association** formed by workers to bargain for **increased wages** and **improved conditions of work** for its members.

- To demand for improved working conditions.
- To bargain for higher wages.
- To improve the skills of their members.
- To promote unity among members.
- To advocate for human rights of members.
- To protect workers from unfair dismissal.
- To advise the government on issues regarding man power planning.

(b) What factors limit the ability of labour organizations to obtain a pay rise for their members in Uganda?

- Poor leadership.
- Small/ limited membership (low levels of unionization)
- Disunity of workers.
- Political interference
- Limited funds.
- Limited skills of the members.
- High level of unemployment
- Low demand for the products produced by members of the trade unions
- Low profitability of firms.
- Low demand for labour.
- High levels of corruption.
- Poor infrastructure.

(c) Explain the methods used by labour organizations to obtain wage increases for their members.

- Collective bargaining/Round table discussions.
- Go on strike / violent strike.
- Sit down strike.
- Demonstrations.

- Court action.
- Mediation (industrial arbitration).
- Go slow method.
- Media wars / sabotage / boycott / Decampaigning.
- Abduction of key members of management.
- Picketing.

30.(a) Distinguish between wage freeze and wage restraint.

Wage freeze is a tendency by the government to hold wages at their existing level for specified period of time so as to control inflation.

Or

It is the legally backed holding of wages at their existing level for a specific period to control inflation.

While;

Wage restraint is a voluntary restriction of wage increases where the government encourages trade unions and employers to moderate their demand for wage increases so as to control inflation.

Or

It is where the government appeals to the employers in the private sector to stop increasing wages for some time during inflation.

(b) Account for wage differentials in Uganda.

- Differences in nature jobs.
- Variations in level of skills/education and training.
- Differences in bargaining strength of individual workers.
- Differences in trade union's ability to bargain for wages.
- Differences in cost of living.
- Differences in employer's ability and willingness to pay workers.
- Differences in number of hours worked- (the case of time rate system).
- Differences in quantity of output produced (the case of piece rate system)
- Differences in elasticity of supply of labour.
- Discrimination in the labour market on the basis of gender, age, religion and race.
- Differences in experience/expertise/responsibility/seniority.
- Differences in elasticity of demand for a product that labour produces.
- Differences in talents or natural gifts.
- Government/employers' policy on wages which tends to be non-matching.

31. (a) Explain the different forms of dependence that are depicted by Uganda's economy.

<u>**N.B**</u>**:** Economic Dependence is the reliance of an economy on other economies

(countries) for survival /development.

- Sectoral dependence
- Direct economic dependence
- External resource dependence
- Trade dependence

(b) What are the economic implications of dependence in Uganda's economy?

- Worsens BOP problems.
- It encourages laziness (it kills local initiative).
- It causes technological unemployment.
- It leads to political domination of Uganda by donors.
- It results into underutilization of natural resources.
- The economy is subjected to inappropriate and undesirable external decisions.
- It leads to economic domination by foreigners.
- It leads to cultural erosion.
- It results into fluctuation in prices of agricultural products.
- It worsens external debt burden.
- Distorts economic planning.
- Results into political interference in the country by the foreigners.

32.(a) Distinguish between trade protectionist policy and trade liberalization policy.

Protectionism is an economic policy of **restricting trade between countries** through methods like tariffs on imported goods, use of quotas etc.

While;

Trade Liberalization is the **removal of unnecessary controls on trade** hence giving people the liberty to engage in trade without undue government controls e.g. total ban, quotas, tariffs, administrative controls etc. to increase value, volume and benefits of trade.

(b) Examine the economic implications of trade liberalization policy in Uganda.

Positive implications:

- Provides revenue to government- (through taxation).
- Improves quality of goods and services- (due to competition)
- Provides employment opportunities- (through hiring of labour).
- Widens consumer choices- (due to production of a variety of goods and services).
- Promotes exploitation/utilization of resources -through increased use of resources).
- Promotes development of labour skills (increases skills of labour) - through training.
- Facilitates development of infrastructure –through construction of roads.

- Promotes technological development (Promotes innovations and inventions).
- Promotes efficiency- due to competition.
- Promotes economic growth/GDP.
- Improves Balance of Payment position-through production for export
- Promotes commercialization of the economy.
- Promotes industrialization.
- Promotes development of entrepreneurial skills.

- Diversifies the economy.

Disadvantages of trade liberalization

- It results into unemployment.
- There is consumer exploitation.
- There is resource exhaustion.
- There is distortion of consumer choices.
- There is duplication of economic activities hence resource wastage.
- It worsens income inequalities.
- It encourages capital outflow.
- It leads to resource misallocation.
- It leads to collapse of local firms due to competition.
- It worsens the BOP problem.
- It results into monopoly and its associated evils.
- Leads to social costs.

33.(a) Examine the factors that have influenced the level of foreign direct investment in Uganda. **N.B: Use has / have.**

- Level of infrastructural development
- Availability of raw materials
- Nature of land tenure system.
- Existing stock of capital
- Political climate
- Level of technology
- Labour skills
- Market size
- Level of accountability
- Availability of tax incentives / level of taxation and subsidization/government policy on investment
- The entrepreneurial ability
- Degree of conservatism
- Rate of inflation
- Degree of liberalization of the economy
- Level of publicity of investment opportunities in the country
- Size of the public sector / level of privatization

(b) What measures are being taken to attract foreign investors in Uganda?

- Investment incentives are being provided to investors.
- Entrepreneurial skills are being improved
- Technology is being improved.
- Political stability is being maintained.
- Labour skills are being improved.
- Markets are being widened / expanded.
- Affordable capital is being provided to investors.
- Inflation is being controlled.
- Infrastructure is being improved.
- Land reforms are being adopted.

34.(a) Describe the features of a good development plan.

Hint: While stating features, Begin as: It should be……

- It should be comprehensive.
- It should be consistent.

- It should have a good sequence.
- It should be optimal (in resource use).
- It should be economically feasible.
- It should be compatible.
- It should be proportional (in allocation of resources).
- It should be politically acceptable.
- It should be socially relevant.
- It should be internationally relevant.
- It should have an element of continuity

(b) Account for the limited success of implementing economic development plans in Uganda.

- Limited statistical data / information.
- Political instability.
- High rates of inflation.
- Limited skilled labour / limited labour skills.
- Limited funds.
- Poor infrastructure.
- (High levels of) corruption.
- Interference by politicians.
- Unforeseen natural calamities.
- Dependence on external resources/foreign aid..
- High population growth rate.
- Over ambitious planning / plans being too ambitious.
- Limited will by the people.
- Non-responsive growing private sector.

35. (a) What is the rationale for undertaking development planning in developing countries?

- To control inflation / to attain price stability.
- To reduce income inequality.
- To reduce the unemployment problem.
- To solicit /request for foreign aid
- To promote resource mobilization.
- To reduce dependence on other countries / To promote self-reliance
- To promote economic growth.
- To improve the balance of payment position.
- To identify areas suitable for public & private investment.
- To encourage public participation in the development process.
- To relate current circumstances / activities to future trends & targets.
- For proper allocation of scarce resources.
- To correct the defects of price mechanism especially during rapid structural changes.
- To ensure consistent use of resources.

(b) Explain the factors that affect the effectiveness of economic development planning.

- Political climate.

- Availability of statistical data / information.
- Availability of funds.
- Rate of inflation.
- Level of development infrastructure.
- Level of accountability.
- Labour skills / Level of supply of skilled manpower
- Degree of political interference.
- Level of dependence on external resources/foreign aid (for planning).
- Degree of ambitiousness of planning/ambition of the plan relative to means.
- Level of dependence on nature/the conduciveness of natural factors.
- Level of government commitment.
- Degree of responsiveness of the private sector.

Summary of Tenses

FUTURE TENSE	PRESENT CONTINUOUS TENSE *("Now" Tense)*	PAST PARTICIPLE TENSE (PAST TENSE)
Suggest measures that **should** be taken to promote economic growth in Uganda. HINT: Use should/can/may	What measures are **being taken** to promote economic growth in Uganda? HINT: Use is/are/does/……ing	What measures **have been taken** to promote economic growth in Uganda? HINT: Use has/have
Infrastructure should be improved. This **can reduce the cost of production and increase profits of investors**. This **can** promote investment and **production of more goods and services** which **can** promote economic growth.	Infrastructure is being improved. This is **reducing the cost of production and increasing profits of investors.** This is promoting investment and **production of more goods and services** which is promoting economic growth.	Infrastructure has been improved. This has **reduced the cost of production and generated more profits to the investors**. This **has promoted** investment and **production of more goods and services** which has promoted economic growth.
Land reforms should be adopted. This **can promote accessibility to land by investors** to set up different businesses. This **can** promote investment and **production of more goods and services** which **can** promote economic growth.	Land reforms are being adopted. This is **promoting accessibility to land by investors** to set up different businesses. This is promoting investment and **production of more goods and services** which is promoting economic growth.	Land reforms have been adopted. This **has promoted accessibility to land by investors** to set up different businesses. This **has promoted** investment and **production of more goods and services** which has promoted economic growth

Economists prayer.

Father of all laws and theories, King of all elasticities and market structures, we thank you for the supply of goods and services plus political stability, send us your spirit to guide us in this inflation, enable us to fight income inequality through proper distribution of resources, reduce the taxes imposed on goods leading to low profit margins. Equip us with skills and capital to fight unemployment. In your name we pray. Amen.