WAKISSHA JOINT MOCK EXAMINATIONS 2015
UGANDA ADVANCED CERTIFICATE OF EDUCATION
MARKING GUIDE
ECONOMICS
P220/2
JULY/AUGUST 2015

SECTION A (20 MARKS)

1. a) (i) A merit good is a good whose consumption is intrinsically desirable (of high social value) and is meant to improve the quality of life of people e.g. education, health care, and safe water (1mark)

While/ whereas.

A public good is a good which when provided for to a particular group of individuals becomes available for others to use at no extra cost and consumption by one person does not reduce the amount available to others too e.g. a public road, defense, street lights

(1mark)

(ii) Reasons why street lights are public goods.

- It is non-excludable in consumption.
- It is non rivalry in consumption.
- It is non divisible.
- It is owned by the government on behalf of the citizens.
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(Any 2X1=2marks)

b) (i) Marginal efficiency of capital is the anticipated or expected monetary returns on an additional unit of capital invested. (employed) (1mark)

(ii) Three ways of increasing marginal efficiency of capital in your country.

- Reducing taxes.
- Increasing efficiency of co-operant factors.
- Increasing market size /expanding the market.
- Reducing interest rate on loans/borrowed capital.
- Reducing depreciation of capital.
- Improving on infrastructure.
- Reducing the cost of raw materials.
- Increasing the output level.
- Improving political climate.
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(1mark)

c) (i) Economic dependence is the reliance of an economy on few of its sectors and other economies for its survival.

While

Economic interdependence is a situation in which two or more economies rely on each other for the sake of mutual benefit of all. (1mark)

ii) Costs of economic dependence in your country.

- Leads to loss of political sovereignty.
- Leads to BOP problems.
- Encourages laziness among nationals.
- Leads to poor terms of trade.
- Leads to high capital outflow.
- Causes technology unemployment.
- Limits exploitation of local resource.
- Leads to dominancy of the economy by foreigners.
- Leads to loss of local values.
- Causes imported inflation.
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(Any 2X1=2marks)

d) (i) Credit multiplier is the number of times by which an initial/a given bank deposit multiplies itself to generate a final change in deposits.

(1mark).

Or

Is the number of times initial deposit in a bank is multiplied to give total credit/total deposits?

(ii) Credit multiplier = $\frac{1}{r}$ or $\frac{1}{\text{cash ratio}}$

$= \frac{1}{0.2}$

= 5times.(1mark)

Initial deposits = $\frac{\text{total credit created}}{\text{Credit multiplier}}$

$= \frac{4,250,000}{5}$

= shs. 850,000

(2marks)

e) (i) Recurrent expenditure refers to the day today spending of the state aimed at maintain existing capacities e.g. the daily running of the state, salaries of civil servants etc.

While

Developing expenditure is the expenditure on development or purchase of capital goods for investment or establishing projects for the Purpose of producing more goods and services e.g. setting up industries, hospitals etc.

(1 mark).

(ii) Two reasons for recent increase in government expenditures.

- Rising cost of infrastructural development.
- Rising emergency finding due to frequent natural disasters.
- High level of corruption.
- Heavy expenditure on defence.
- Limited non tax source of revenue.
- Heavy expenditure on civil servants and politicians.
- Persistent/heavy debt servicing.
- Over ambitious planning.
- Narrow tax base/few tax bases.
- Weak tax administration.
- Low taxable capacity.
- High population growth rates.
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2X1= 2marks

SECTION B.

2. (a) Excess capacity refers to a situation where a firm or an industry is producing at less than its installed capacity.

Or

It is the state of underutilizing the available resources.(2marks)

While

Over production is producing in excess of demand.

Or

Producing more than what is required on the market. (2marks)

(b) Reasons why small scale firms survive in Uganda include.

- Some small scale are still in their infancy are beginner films.
- Limited/shortage of raw materials.
- Fear of losing of control.
- Fear of incurring huge losses due to risks.
- Due to government/encouraging setting up of small scale firms.
- Small scale firms being more flexible.
- Due to shortage of capital.
- Fear of heavy taxes with increase in the scale of production.
- Small scale firms use simple production techniques.
- Limited managerial skills/ limited entrepreneurial skills.

- Some small scale firms are experimental firms.
- Limited market for products produced.
- Fear of diseconomies of scale associated with large scale firms.
- Some small scale firms produced in special orders.
- Fear for uncertainties.

8X2 = 16marks

3. (a) The features of the industrial sector in Uganda include.
    - It is mainly on a small scale.
    - Many industries are agro-based.
    - Industries are mainly urban based.
    - Industries mainly use labour intensive technique of production.
    - Many industries use mainly unskilled and semi-skilled labour.
    - There is production of mainly low quality (manufactured) goods.
    - The industrial firms are mainly privately owned.
    - Production is mainly for domestic market /the industries are mainly import substitution.
    - Industries use a high component of imported raw materials and intermediate products.
    - Most industries are processing industries.
    - There is production of mainly consumer goods.
    - The industries that produce durable consumer goods are mainly assembling plants.
    - Mainly produce low output/mainly produce at excess capacity.
    - There are limited linkages between the industrial sector and other sectors.

    10 X 1 = 10marks

   (b) Measures being taken to expand the industrial sector in Uganda are;
    - Developing infrastructures.
    - Widening market.
    - Providing affordable credit (loans) to investors.
    - Providing tax incentives/improving the investment climate.
    - Reforming the education system to produce more skilled labour.

- Stabilizing the political climate.
- Fighting corruption.
- Reforming the land tenure system.
- Stabilizing prices.
- Modernizing agriculture.
- Further privatization of the public enterprise.
- Improving production techniques.
- Strengthening specialized institutions to enable industrial development.
- Carrying out international campaigns to attract foreign investors.
- Improving on entrepreneurial skills.
- Encouraging savings.
- Further liberalising of the economy.
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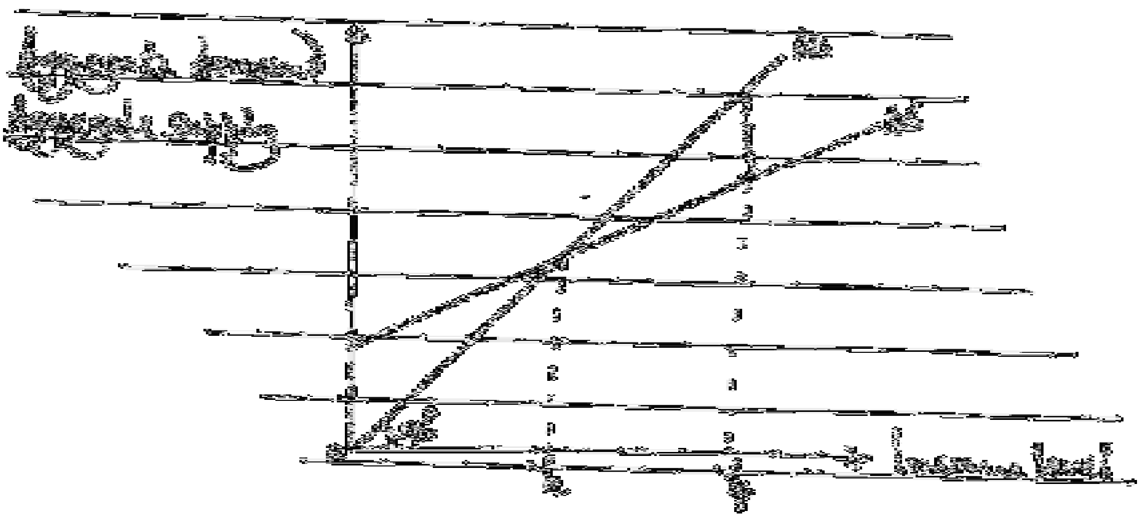
10 X 1 = 10marks

4. (a) The Keynesian theory of unemployment states that unemployment arises due to deficiency in aggregate demand for goods and services especially during times of economic depression.

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



The unemployment $Ye\text{-}Y_f$ is a result of deficiency in aggregate demand.

(b) To a minor extent the theory is applicable due to the following reasons.

- At times, unemployment results due to a fall in demand.
- In Uganda there is an element of industralisation hence the theory may be applicable in the industrial sector.

- In the long run the supply of co-operant factors to labour increases hence making the theory applicable.
- Investment climate affects employment level hence promotion of investment in LDC expands employment.
- Use of expansionary monetary policy to increase purchasing power in my country has increased employment level.
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To a large extent the theory is irrelevant due to the following reasons.

- It is mainly concerned on the demand deficiency yet unemployment in Uganda is basically from the supply side.
- It mainly affects industrialised economies of the world yet Uganda as basically agro based.
- The theory is applicable under conditions of full employment which do not exist in Uganda.
- As a solution to unemployment Keynes prescribed policies which increases the level of aggregate demand but these may cause inflation.
- The theory is based on assumption of a highly monetized economies yet Uganda is mainly a subsistence economy.
- The private sector is still small and weak making the theory irrelevant.
- Product, factors and money markets in Ugandan are not well functioning which the Keynesian theory irrelevant.
- Due to structural rigidities firms in Uganda do not readily and effectively respond to changes in demand.
- The theory emphasizes investment multiplier as the main contributor to employment creation yet in Uganda it is mainly the export multiplier.
- Keynes based the theory on a closed economy yet Uganda is an open economy.
- High marginal propensity to import which reduces the multiplier effect and thus even employment domestically and abroad.
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5. (a) Causes of inflation in my country.
   - Rising cost of production.
   - Natural hazards.
   - Break down of infrastructure.

- Political instability.
- Importation of goods from inflation from countries.
- Excessive/increased inflow of income from abroad.
- Greed for high profits by traders.
- Speculation by traders.
- Excessive issuance of currency.
- Excessive government expenditure.
- Decline in the value of the local currency.
- Excessive exportation of essential goods.
- Increased demand for exports.
- Excessive/un controlled credit creation.
- Excessive borrowing from the central bank.
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(b) Measures that have been taken to control inflation in my country.

- Increased direct taxes to reduce peoples' disposable incomes.
- Reduced government expenditure.
- Liberalized the economy.
- Provided tax incentives to investors.
- Developed infrastructures.
- Under taken restrictive monetary policy.
- Controlled issuance of currency.
- Modernized agriculture.
- Carried out further privatization.
- Encourage importation from cheaper sources.
- Encouraged use of instruments of credit.
- Improved political atmosphere.
- Reduced government borrowing from the central bank.
- Reduced indirect taxes on non-essential goods and services.
- Controlled exportation of some goods.
- Under took import substitution strategy.
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10X1=10marks.

6. (a) Tools of protectionism in my country.

- Quotas.
- Subsidies.
- Import substitution industries.
- Total ban.
- Trade embargo.
- Manipulation of exchange rates.
- Licensing.
- Quality control requirements.
- Direct administration control.
- Tariffs.

6X1=06marks.

(b) Rationale for regulating foreign trade in Uganda.

- To protect domestic infant industries.
- To avoid importing goods from countries experiencing inflation.
- To discourage importation of harmful products.
- To promote self-reliance.
- To create more job opportunities.
- To improve the BOP position.
- To increase revenue from import duties.
- To protect political stability.
- To protect cultural values from erosion.
- To discourage dumping.
- To encourage the use of local resources.
- To foster economic growth.
- To promote innovations.
- To Minimise political influence from abroad.

7. (a) Explain the benefits of privatization in your country. (10marks)

- Enables firms to operate more efficiently.
- Attracts foreign investment/foreign investors.
- Reduces corruption.
- Expands the tax base.

- Improves resource utilization.
- Creates employment opportunities in the long run.
- Responds to IMF conditionality to get foreign Aid.
- Increases domestic output hence economic growth.
- Reduces government expenditures on subsidization of public enterprises.
- Improves relationship between countries.
- Checks inflation.
- Reduces bureaucracy.
- Improves the balance of payment problem.
- Encourages competition hence production of quality goods.
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Any 10x1=10marks

(b) Discuss the problems that have been faced during the privatization process in your country. (10 marks)

- Corruption within the privatization unit.
- Opposition from the public due to.
- Unserious buyers.
- High cost of the process.
- Under developed capital markets.
- Political sabotage.
- High cost of the process.
- Poverty among nationals which forces the government to sell to foreigners.
- Ideological difference among government officials in the privatization unit.
- Political instability in some parts of the country.
- Small market in Uganda which discourages potential buyers.
- Poor state of the enterprises making it hard to sell them.
- Poor valuation of the enterprises making it hard to sell them.
- Poor valuation of the enterprises which results into losses.
- Under developed capital markets.
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Any 10X1=10marks.

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