

P220/1
ECONOMICS
Paper 1
July / August 2009
3 hours

WAKISSHA JOINT MOCK EXAMINATIONS
Uganda Advanced Certificate of Education
ECONOMICS
Paper 1
3 Hours

INSTRUCTIONS

- *Answer four questions in all.*
- *Section 'A' is compulsory. Answers to this section should be precise and concise.*
- *Answer only three questions from section 'B'*
- *All questions in section 'B' carry equal marks.*
- *Credit will be given for the use of relevant diagrams.*

SECTION A (40 MARKS)

1.(a) Give four problems associated with a “laissez faire” system of economic organization. (4 marks)

(b) Study the table below and answer the questions that follow.

Price of Maize (Shs.)	Supply of Maize (Kg)
50	100
40	250
30	500
20	1100
10	3000

- (i) Calculate the average revenue when 1100 units are sold. (2 marks)
- (ii) Calculate the marginal revenue when 3000 units are sold. (2 marks)
- (c) (i) What is meant by “factor prices”? (1 mark)
- (ii) Name three examples of factor prices. (3 marks)
- (d) (i) What is investment **Multiplier**? (1 mark)
- (ii) Give three ways of attracting foreign investors in an economy. (3 marks)
- (e) Outline four features of “Rostow’s drive to maturity” stage of economic growth. (4 marks)
- (f) (i) Define ‘dependence ratio’ (1 mark)
- (ii) State three negative implications of a high dependence ratio to an economy. (3 marks)
- (g) (i) Define seasonal unemployment. (1 mark)
- (ii) Identify three remedies to seasonal unemployment. (3 marks)
- (h) (i) Given that the quantity of money in the economy is Ug Shs. 2,000,000/= (Two million shillings), its velocity of circulation is 20 and the number of transactions made are 250. Calculate the general price level in the economy (4 marks)
- (i) (i) Differentiate between **incidence of a tax** and **impact of a tax**. (2 marks)
- (ii) Give two reasons why people don’t want to pay taxes. (2 marks)
- (J) (i) Define the term dumping. (1 mark)
- (ii) Outline any three objectives of dumping. (3 marks)

SECTION B (60 MARKS)

2. (a) Explain the **slope** of a **normal** demand curve. (10 marks)
- (b) What are the **exceptions** to the **law** of demand? (10 marks)
3. (a) What are the **bases** of **Monopoly power** in an economy? (10 marks)
- (b) Why should **Monopoly** power be **controlled**? (10 marks)
4. (a) What is **national income**? (2 marks)
- (b) For what reasons does a country compile National Income Statistics?(18 marks)
5. “Developing countries should adopt a “**balanced growth strategy** if they are to achieve a faster rate of development” Discuss. (20 marks)
6. (a) What are the **objectives of trade unions** in an economy? (8 marks)
- (b) Discuss the “**tools**” used by trade unions to achieve their objectives.(12 marks)
7. (a) What is “**un balanced budget**”? (4 marks)
- (b) Account for the continuous use of deficit budgets in developing countries. (16 marks)
8. (a) Explain the **importance of Economic integration** to an economy. (10 marks)
- (b) What are the **necessary conditions for the success of economic integration**? (10 marks)

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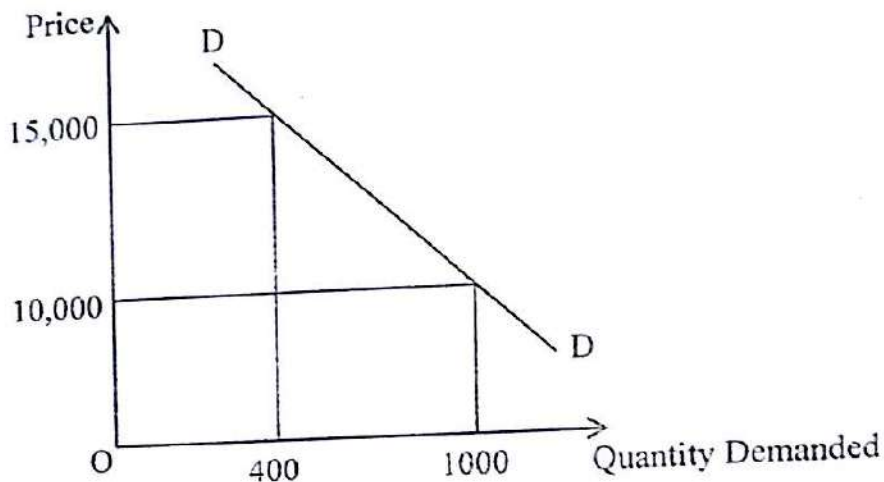
INSTRUCTIONS TO CANDIDATES:

- Answer *four* questions.
- Section A is compulsory. Answers to this section should be precise and concise
- All questions in section B carry equal marks.
- Credit will be given for use of relevant diagrams.

SECTION A (40 Marks)

Answer all parts in this section.

1. a) i) What is meant by the term "scale of preference"? (1mark)
 ii) How is scarcity, choice and opportunity cost related? (3marks)
- b) Study the figure below and answer the questions that follow:-



- i) Calculate the price elasticity of demand when the price reduces from Shs. 15000/= to Shs. 10,000/=. (2marks)
- ii) Comment on the nature of the commodity and elasticity. (2marks)
- c) i) Define the term "demand for labour" (1marks)
 ii) Mention three factors determining the demand for labour in an economy. (3 marks)
- d) Give four reasons why national income is measured. (4mark)
- e) Outline **four** characteristics of Rostows' "Drive to Maturity" stage of economic growth. (4marks)
- f) (i) Differentiate between "Technological unemployment and Transitional unemployment" (2mark)
 (ii) State any **two** solutions to technological unemployment. (2marks)
- g) (i) What is meant by "price – wage inflation"? (1marks)
 (ii) Give three causes of "cost– push inflation" (3marks)
- h) i) Differentiate between " impact of a tax" and "incidence of a tax." (2marks)
 ii) Mention two advantages of "taxation" to an economy (2 marks)
- i) List **four** merits of the informal sector to an economy (4marks)
- j) (i) What is "Privatization" ? (1marks)
 (ii) State any **three** structural Adjustment programmes of the International Monetary Fund (IMF) (3marks)

SECTION B (60 Marks)

Answer any three question from this section.

2. (a) Explain the role of price in a free enterprise economy? (8mks)
(b) Why may the government intervene in the allocation of resources in a free enterprise economy? (12mks)
3. (a) Why is it necessary to control monopoly power? (10mks)
(b) Explain how monopoly power can be controlled? (10 mks)
4. (a) Differentiate between Standard of living and Cost of living (4mks)
(b) Examine the indicators of low standards of living in Less Developed Countries (LDCs). (16marks)
5. a) Distinguish between "Labour Saving" and "Capital Saving" techniques of production. (6marks)
(b) Discuss the merits and demerits of capital saving techniques of production to a country. (14 marks)
6. (a) What are Trade Unions? (4mks)
(b) Examine the problems encountered by trade unions in developing countries. (16mks).
7. (a) Explain the Irving Fisher's quantity theory of money (6mks)
(b) Why is the quantity theory of money less relevant? (14marks)
8. (a) Distinguish between "Barter terms of trade" and "Income terms of trade" (4marks)
(b) Why have less developed countries continued to benefit less in international Trade? (16mks)

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- Answer **only four** questions from Section B.
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- Credit will be given for use of relevant diagrams.
- Any additional question(s) attempted will **not** be marked.

SECTION A (20 Marks)

Answer all parts of this question.

1. a) i) What is meant by a centrally planned economy? (01mark)
- ii) State any three merits of a centrally planned economy. (03marks)
- b) i) State the law of variable factors proportions. (01mark)
- ii) Mention any three assumptions of the above law. (03marks)
- c) i) What is meant by an inward looking strategy? (01mark)
- ii) Give three aims of the inward looking industrial development strategy. (03marks)
- d) i) Define the term "Commercial policy" (01mark)
- ii) State any three objectives of imposing import duties in the economy. (03marks)
- e) i) Study the table below and answer the questions that follow;

COUNTRY	COMMODITIES (TONNES)	
	RICE	COTTON
X	3	5
Y	6	10

Which country has absolute advantage in the production of both cotton and rice. Defend your answer. (02marks)

- ii) Suggest the country you would advise to specialize in the production of cotton and why? (02marks)

SECTION B (80 MARKS)

Answer any four questions from this section.

2. a) Distinguish between elasticity of demand and elasticity of supply. (04marks)
- b) Explain the factors that determine the elasticity of demand for a commodity. (16marks)
3. a) Describe the features of a perfectly competitive market. (08marks)
- b) Using appropriate illustrations, explain how profits are maximized in the;
- i) Short run. (06marks)
- ii) Long run. (06marks)
4. a) How is national income measured? (06marks)
- b) Why is national income measured? (14marks)
5. a) Distinguish between;
- i) Efficiency of labour and productivity of labour. (02marks)
- ii) A minimum wage and living wage. (02marks)
- iii) Wage freeze and wage restraint (02marks)
- b) Present the case for and against a minimum wage. (14marks)
6. a) Given that in the banking system, the initial deposit is Ushs.20,000,000 and cash ratio is 40% determine the maximum credit that can be created. (04marks)

- b) Examine the factors that determine the level of credit creation in an economy. (16marks)
7. a) Differentiate between currency devaluation and currency depreciation. (04marks)
- b) Under what circumstances may devaluation fail to achieve its objectives. (16marks)

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SECTION A (20 Marks)

Answer all parts of this question.

1. a) i) Define the term **price elasticity of demand** (01mark)
ii) Given that the price of a commodity falls from **shs.40 to shs.20**, the demand for the commodity increases from **16,000kg to 20,000kg**. Calculate and state the nature of elasticity of demand. (03 marks)
- b) i) Distinguish between **profit and interest**. (02 marks)
ii) Give any **two** factors that determine the **rate of interest** on capital. (02 marks)
- c) i) What is meant by the term **Real Income**. (01mark)
ii) Given GDP at **factor cost**, how do you derive **NNPV at market price?** (03 marks)
- d) i) Distinguish between **Terms of Trade and Balance of Trade**. (02 marks)
ii) Explain why **favourable Terms of Trade** may not lead to or imply **favorable Balance of Trade?** (02 marks)
- e) i) What is **money?** (01 marks)
ii) Mention any **three** features of **good money**. (03 marks)

SECTION B (80 MARKS)

Answer any four questions from this section.

2. a) What is **price mechanism?** (02marks)
- b) Give **six** assumptions of **price mechanism**. (06marks)
- c) What is the **role of price** in a **capitalistic economy?** (12marks)

3. a) What are the main **features of Oligopoly**? (08marks)
- b) Describe the forms of **non-price competition** used by oligopoly firms in an economy. (12marks)
4. a) Distinguish between **savings and investment**? (04 marks)
- b) Explain the **factors that influence the level of investment in an economy**. (16 marks)
5. a) State the **Keynesian theory** of unemployment. (04 marks)
- b) Give **four possible remedies to Keynesian unemployment problem**. (08 marks)
- c) Explain **eight limitations of the Keynesian theory of unemployment**. (08 marks)
6. a) Explain the **problems facing the industrial sector in developing countries**. (10 marks)
- b) Suggest possible **measures that can be taken to promote the industrial sector in developing countries**. (10 marks)
7. a) Describe the various forms of **economic integration**. (10 marks)
- b) Discuss the **conditions necessary for the success of Economic integration**. (10marks)

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SECTION A (20 Marks)

Answer all parts in this question

1. a) i) Define price. (01mark)
ii) Mention any **three** forms of price controls in an economy. (03marks)
- b) i) Differentiate between Average cost and Marginal cost. (02 marks)
ii) State any **two** ways of reducing average cost by a producer. (02 marks)
- c) i) Define the term multiplier. (01mark)
ii) Given that a country's level of GDP is Shs. 500m, MPC is 0.75 and the change in investment expenditure is Shs. 200m. Calculate the final level of income in an economy. (03marks)
- d) Outline any **four** problems faced by commercial banks in an economy. (04marks)
- e) i) What is meant by the term comprehensive plan? (03marks)
ii) Give any **three** merits of a comprehensive plan in an economy. (03marks)

SECTION B (80MARKS)

Answer any four questions from this section

2. a) Distinguish between price floor and price ceiling. (04marks)
b) Examine the effects of price controls in an economy. (16marks)
3. a) Describe the features of a perfectly competitive market. (08marks)
b) Explain how output, price and profits are determined in a perfectly competitive market in both short run and long run. (12marks)
4. a) Differentiate between standards of living and cost of living. (04marks)
b) Describe the indicators of low standards of living in an economy. (16marks)
5. a) Explain the theory of comparative cost advantage. (04marks)
b) What are the limitations of the comparative cost advantage theory in an economy? (16marks)
6. a) Distinguish between Agriculture transformation and Agriculture diversification. (04marks)
b) Suggest possible measures that can be adopted to improve the performance of the agricultural sector in an economy. (16marks)
7. a) What is meant by an unbalanced budget? (04marks)
b) Explain the significance of a National budget as a tool of economic analysis. (16marks)

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SECTION A (20 Marks)

Answer all parts in this question

1. (a) (i) What is meant by **Resale price maintenance**? (01mark)
(ii) State **three** merits of Resale price maintenance in an economy. (03marks)

(b) Study the table below showing a closed economy with no government sector.

National Income in million shillings	60	80	100	120	140	160	180	200
Consumption expenditure in million shillings	88.2	102.6	117.0	131.4	145.8	160.2	174.6	189.0

Calculate the;

- (i) Value of the marginal propensity to consume. (02 marks)
(ii) Size of the multiplier. (02 marks)
- (c) (i) Define the term "**Credit creation**". (01 mark)
(ii) State **three** limitations to credit creation in an economy. (03 marks)
- (d) Explain and illustrate how Normal profits are determined under perfect competition. (04 marks)
- (e) (i) Differentiate between **Barter terms of trade** and **Income terms of trade**. (02 marks)
(ii) Give any **two** measures of improving a country's terms of trade. (02 marks)

SECTION B (80 MARKS)

Answer four questions from this section.

2. (a) Differentiate between **income elasticity of demand** and **price elasticity of demand**. (04 marks)
(b) Explain the causes of low price elasticity of demand in an economy. (16 marks)
3. (a) Why are there income variations among individuals in developing countries? (10 marks)
(b) Suggest the possible measures that can be adopted to reduce income variations in developing countries. (10 marks)
4. (a) Distinguish between "**inward looking**" and "**outward looking**" strategies of industrial development. (04 marks)
(b) Examine the likely implications of adopting an "inward looking strategy of industrial development in developing countries." (16 marks)
5. (a) Describe the characteristics of a perfectly competitive market. (08 marks)
(b) Explain how profits are determined under perfect competition both in the Short-run and long-run. (12 marks)
6. (a) Explain David Ricardo's Principle of Comparative Cost Advantage as used in international trade. (06 marks)
(b) Discuss the conditions that limit the applicability of the principle of comparative cost advantage in developing countries. (14 marks)
7. (a) What are the objectives of a government budget? (06 marks)
(b) Examine the measures that can be undertaken to minimize budgetary deficits in an economy. (14 marks)

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SECTION A (20 Marks)

Answer all parts in this question

1. (a) (i) What is meant by **Resale price maintenance**? (01 mark)
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- (i) Value of the marginal propensity to consume. (02 marks)
(ii) Size of the multiplier. (02 marks)
- (c) (i) Define the term "**Credit creation**". (01 mark)
(ii) State **three** limitations to credit creation in an economy. (03 marks)
- (d) Explain and illustrate how Normal profits are determined under perfect competition. (04 marks)
- (e) (i) Differentiate between **Barter terms of trade** and **Income terms of trade**. (02 marks)
(ii) Give any **two** measures of improving a country's terms of trade. (02 marks)

SECTION B (80 MARKS)

Answer four questions from this section.

2. (a) Differentiate between **income elasticity of demand** and **price elasticity of demand**. (04 marks)
(b) Explain the causes of low price elasticity of demand in an economy. (16 marks)
3. (a) Why are there income variations among individuals in developing countries? (10 marks)
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7. (a) What are the objectives of a government budget? (06 marks)
(b) Examine the measures that can be undertaken to minimize budgetary deficits in an economy. (14 marks)

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SECTION A (20 MARKS)

Answer all parts of this question.

1. (a) (i) Distinguish between consumer's surplus and Producer's Surplus. (02 marks)
- (ii) Study the table below. Given that the fixed market price is Shs. 2,500, calculate the producer's surplus. (02 marks)
- | | | | | | |
|-------------------------|-------|-------|-------|-------|-------|
| Price (shs) | 3,000 | 2,500 | 2,000 | 1,500 | 1,000 |
| Quantity Supplied (kgs) | 5 | 4 | 3 | 2 | 1 |
- (b) (i) What is excess capacity of a firm? (01 mark)
- (ii) Give **three** reasons why a firm may operate at excess capacity. (03 marks)
- (c) (i) Define the term "**industrial Inertia**". (01 mark)
- (ii) Give **three** reasons why the government may influence location of an industry. (03 marks)
- (d) (i) Define the term **Capital Consumption allowance**. (01 mark)
- (ii) Given that GDP at market price is Shs. 10 million, outlays is Shs. 2 million, Net Income from abroad is Shs. 5million and subsidies are Shs. 0.5million. Calculate the GNP at factor cost. (03 marks)
- (e) (i) Differentiate between assets and liabilities of a commercial bank. (02 marks)
- (ii) Mention any **two** examples of assets of a commercial bank. (02 marks)

SECTION B (80 MARKS)

Answer four questions from this section.

2. (a) Distinguish between Price Mechanism and Price Control. (04 marks)
- (b) Explain the role of Price Mechanism in resource allocation in an economy. (16 marks)
3. (a) Explain how a monopoly firm determines output, price and profits in the short run. (06 marks)
- (b) Examine the implications of monopoly practice in an economy. (14 marks)
4. (a) Why is Unemployment persistently becoming a problem of concern today? (10 marks)
- (b) Discuss the remedies that can be adopted to reduce unemployment among the youth. (10 marks)
5. To what extent is the Malthusian theory of population of relevance to developing countries? (20 marks)
6. (a) Distinguish between **currency revaluation** and **currency under valuation**. (04 marks)
- (b) Why is it necessary for a country to devalue its currency. (16 marks)
7. (a) Describe the features of a good development plan. (08 marks)
- (b) Examine the merits and demerits of decentralised planning in an economy. (12 marks)

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SECTION A (20 MARKS)

Answer all parts of this question.

1. a) i) What is a free market economy? (1 mark)
ii) Give any **three** merits of a free market economy. (3 marks)
- b) i) Define cross elasticity of demand. (1 mark)
ii) An increase in price of commodity x from Shs. 3,000 to Shs 4,000 resulted into a rise in the quantity demanded of commodity Z from 500 units to 600 units. Calculate the relevant elasticity of demand. (3 marks)
- c) i) Define absorptive capacity as used in Foreign aid. (1 mark)
ii) State any **three** causes of low absorptive capacity in developing countries. (3 marks)
- d) i) State the Irving Fisher's equation of exchange. (1 mark)
ii) Describe how the value of money is determined in Fisher's equation of exchange. (3 marks)
- e) Outline any **four** sources of government revenue in an economy. (4 marks)

SECTION B (80 MARKS)

Answer any **four** questions from this section.

2. a) Distinguish between a firm and an Industry. (4 marks)
b) Explain the factors that determine the size of a firm in an economy. (16 marks)
3. a) Describe how output, price and profits are determined in a perfectly competitive market in the short run. (6 marks)
b) Examine the advantages and disadvantages of a perfectly competitive market. (14 marks)
4. a) Why is it important for a country to measure its per capita income? (4 marks)
b) Discuss the limitations of using per capita income in determining the standard of living in a country overtime. (16 marks)
5. a) Why is there need for development of the agricultural sector in developing countries? (10 marks)
b) Explain the challenges encountered in the development of the agricultural sector in developing countries. (10 marks)
6. a) State the assumptions underlying the Malthusian theory of population. (4 marks)
b) How relevant is the Malthusian theory of population to developing countries? (4 marks)
c) Explain the possible ways developing countries can use to reduce population growth rates. (12 marks)
7. a) What is meant by the term 'Protectionism'? (2 marks)
b) Why may a country carry out protectionist policies? (18 marks)

END