

ANSWERS TO SEMINAR QUESTIONS

Held @ SHACK on 15th July 2018

1. (a)

(i) Define the term dual economy	(01 Marks)
(ii) State any three advantages of a dual economy	(03 Marks)

Answer:

(i) Definition of a dual economy:

A dual economy is one where there is co-existence of two contrasting sectors or phenomena, one advanced/modern/superior/desirable and the other backward/traditional/inferior/undesirable; which are mutually exclusive to different groups of the economy

Or

A dual economy is one in which there is co-existence of two phenomena at the same place and time, one desirable, the other not which are mutually exclusive to different group of the economy

(ii) Advantages of a dual economy

1. increases employment both in the formal and informal sector
2. Government raises a lot of revenue through progressive taxation of the modern sector or the rich
3. Government is awakened to its responsibility of providing utilities for the less developed regions or disadvantaged individuals
4. Provides an impetus for research and planning to identify ways and means of developing the economy
5. Fosters mobility of factors from the traditional sector to modern sector
6. Promotes diversification in the economy due to the existence of firms in both the formal and informal sectors

(b)

(i) Distinguish between money supply and demand for money	(02 Marks)
(ii) Mention any two reasons for high demand for money in Uganda	(02 Marks)

Answer:

- (i) Money supply is the quantity of money in circulation in a particular country at a particular time.

Or

Money supply refers to total amount of money both in circulation and the bank deposits

Or

Money supply refers to the quantity of money which is in circulation in a given country at a given time and the bank deposits

Or

Money supply is the currency in the hands of the people/public plus the demand deposits in commercial banks Money supply refers to total amount of money both in circulation and the bank deposits

Or

Money supply refers to the quantity of money which is in circulation in a given country at a given time and the bank deposits

Or

Money supply is the currency in the hands of the people/public plus the demand deposits in commercial banks

While

Demand for money is the desire to hold assets/wealth in form of cash or near cash

(ii) Reasons for high demand for money in Uganda

1. Low level of income
2. High level of speculation
3. High rates of inflation/high general price level
4. High degree of uncertainty
5. Low development of commercial banks and other financial institutions
6. Low interest rates on financial assets
7. High level of illiteracy
8. Limited knowledge of services provided by commercial banks
9. Stringent requirements for opening and operating bank accounts

(c)

(i) What is a national budget?	(01 Mark)
(ii) Mention any three objectives of budget in Uganda	(03 Marks)

Answer:

(i) What a national budget is

A national budget is an estimate of a country's expected revenue and an anticipated expenditure for a given financial/fiscal year

(ii) Objectives of a budget in Uganda

1. to attain and maintain price stability/to control inflation
2. to create employment opportunity/ to reduce unemployment
3. to improve BOP/To correct BOP deficit
4. To reduce income inequality/to promote equitable income distribution
5. To protect domestic (infant) industries/firm
6. To discourage consumption of harmful/undesirable products
7. To reduce regional imbalance in development
8. To accelerate rate of economic growth
9. To raise revenue for government
10. To influence investment
11. To regulate government expenditure
12. To mobilise/solicit foreign resources
13. To mobilise masses to participate in national development
14. To reduce economic dependence

(d)

(i) State the law of variable proportions	(01 Mark)
(ii) Under what circumstances may the law of variable proportions fail to operate? (03 Marks)	

Answer:

- (i) The law of variable proportions states that as more and more units of a variable factor are applied to a given quantity of a fixed factor, the marginal product/output first rises, reaches a maximum point and then diminishes/falls/declines

(ii) Circumstances under which the law of variable proportions may fail to operate

1. In case of absence of a variable factor
2. When there is absence of a fixed factor
3. If technology is changing
4. In case of units of the variable factors are not the same/when variable factors are indivisible
5. In case of different factor prices
6. When there is a long run period

(e)

(i) Distinguish between piece rate and time rate method of wage payment (02 Marks)

(ii) Give any two demerits of piece rate method of wage payment in Uganda (02 Marks)

Answer:

(i) Piece rate is a method of wage payment where workers are paid according to the amount of work done/work accomplished

While

Time rate is a method of wage payment where workers are paid according to time taken/spent at work e.g. per hour, day, week, month etc.

(ii) Demerits of piece rate method of wage payment in Uganda

1. workers tend to overwork themselves to earn high wages and this negatively affects their health
2. reduces the quality of because of hurried work for higher pay
3. leads to overproduction due to high output rates resulting into wastage of resources
4. a worker who genuinely misses work or falls sick is not paid for the days missed. This causes wage instability
5. hardworking people are resented by the slow workers leading to conflicts and income inequality
6. leads to high risks of accidents because workers try to increase the speed of work for higher wages
7. it undermines trade union solidarity because of variation in piece rates from one place to another and due to conflict between hardworking people and the slow workers
8. slow but careful and efficient workers are discouraged since they produce low output levels (and good quality output in a long time) that earns them low wages
9. workers may resist being transferred from one form of work where they have acquired more experience to another

(f)

(i) Define the term marginal propensity to import (01 Mark)

(ii) Given that a country's GDP changed from 200 million USD to 600 million USD and the value of imports increased by 100 million USD, calculate the marginal propensity to import.

(03 Marks)

Answer:

(i) **Definition of marginal propensity to import**

Marginal propensity to import refers to the proportion /fraction/percentage of additional income that is spent on imports

Or

Marginal propensity to import is the ratio of change in imports expenditure to change in income

(ii) To calculate the marginal propensity to import

$$\begin{aligned}\text{Marginal propensity to import} &= \frac{\Delta i}{\Delta y} \\ &= \frac{100}{600-200} \\ &= \frac{100}{400}\end{aligned}$$

Therefore marginal propensity to import is 0.25

2.

- (a) Why is there need to interfere with price mechanism in an economy? (10 Marks)
(b) What policy measures can be taken to minimize the shortcoming of price mechanism? (10 Marks)

Answer:

(a) Why there is need to interfere with price mechanism in an economy

1. To control economic instabilities like inflation
2. To guard against unemployment
3. To control or check monopoly power in an economy
4. To minimise or reduce income inequality
5. To check/control consumer exploitation by the profit-hungry business community
6. To ensure optimal resource allocation in an economy
7. To cater for the rapid structural changes which are desired in an economy but cannot be attained through market forces of demand and supply
8. To control/minimise social costs which arise when private individuals or private investors are pursuing their private gains
9. To provide public goods like public roads and national security which are not catered for by price mechanism
10. To encourage production and consumption of merit goods such as safe water, medical care, and education
11. To provide goods needed by the poor

(b) Policy measures that can be taken to minimize the shortcoming of price mechanism

1. Use of progressive taxation
2. Control/discourage monopoly power
3. Set up and strengthen the bureau of standards
4. Encourage the setting up of consumer associations and consumer cooperative societies
5. Subsidize firms especially those providing essential and merit goods
6. Set up regulatory bodies to protect the environment/enact environment protection laws
7. License business enterprises/control of licensing
8. Plan for the economy
9. Ration goods

10. Nationalise private enterprises
11. Use of buffer stocks
12. Provision of public goods by the government
13. Price controls by the government
14. Further economic liberalisation should be undertaken to avoid monopoly
15. Restrictive monetary policies should be adopted

3.

(a) What is the basis for the existence of monopoly in an economy?	(10 Marks)
(b) Account for the need to regulate monopoly in an economy	(10 Marks)

Answer:

(a) The basis for the existence of monopoly in an economy

1. Existence of patent rights to innovators and copy rights to authors/special talent
2. Large initial capital requirements
3. The market being too small for many firms to operate
4. Natural monopolies due to ownership or control of a strategic source of raw materials
5. Spatial monopolies due to long distance between producers
6. Statutory monopolies arising from government through statutes and Act of Parliament
7. Mergers and take overs of firms
8. Long period of apprenticeship i.e. long periods of training leading to professional monopolies e.g. architects, Chartered Accountants etc.
9. Protectionism in international trade leading to sheltered monopolies e.g. Soda firms, Sugar firms etc.
10. Limit pricing policies/aggressive price wars
11. Cartels and common marketing policies e.g. OPEC

(b) why there is need to regulate monopoly in an economy

1. To control consumer exploitation through over pricing
2. To increase/promote investment/entrepreneurship
3. To improve quality of output
4. To widen the tax base/to increase government revenue
5. To reduce/control excess capacity
6. To increase exploitation/utilisation of natural resources
7. To create more employment opportunities
8. To reduce income inequality
9. To promote innovations and inventions
10. To increase output hence economic growth
11. To reduce pressure exerted on government for concession of firms
12. To avoid shortage caused by breakdown of firms
13. To promote growth sheltered/infant firms

4.

(a) Explain the role of infrastructure in the economic development process of Uganda	(10 Marks)
(b) What strategies are being taken by the government of Uganda to improve on the	

Answer:

(a) The role of infrastructure in the economic development process of Uganda

1. Promoting investment/capital inflows
2. Promoting the development of labour skills
3. Fighting inflation
4. Promoting industrial development
5. Promoting trade/accessibility to markets
6. Providing employment opportunities
7. Promoting savings
8. Facilitating optimum or increased utilisation of idle resources
9. Improving the social welfare of the people
10. Monetisation of the economy through facilitating agricultural development or modernisation
11. Increasing productivity/growth of GDP hence high economic growth rate
12. Facilitating innovation and inventions
13. Promoting diversification
14. Promoting entrepreneurial skills
15. Generating revenue to government
16. Leading to increased foreign exchange

(b) Strategies that are being taken by the government of Uganda to improve on the infrastructure

1. Rehabilitating/renovating/maintaining existing infrastructure
2. Constructing infrastructure for better transport and communication links
3. Contracting private firms to develop infrastructure
4. Setting up supportive institutions
5. Raising funds both locally and externally
6. Improving labour skills
7. Importing modern technology
8. Liberalising investment in the sector/economy
9. Providing incentives to investors in the sector
10. Diversifying the sector
11. Publicising/advertising potential opportunities in the sector
12. Developing/decentralising the sector
13. Changing land tenure system
14. Undertaking private-public partnership in infrastructural development
15. Fighting corruption
16. Improving political climate
17. Investing in new energy sources

5.

(a) State the subsistence theory of wages

(04 Marks)

(b) To what extent is the subsistence theory of wages applicable in the determination of wages in Uganda

(16 Marks)

Answer:

(a) Subsistence theory of wages states that workers should be paid wages to enable them meet their bare subsistence needs so that they can work harder after experiencing hardships like hunger

(b) The extent to which the subsistence theory of wages is applicable in wage determination:

To a larger extent the subsistence theory of wages is not applicable in determining wages in Uganda because of the following reasons;

1. The theory approaches the problem of wage determination entirely from the supply side; it ignores the demand for labour entirely thus difficult using it
2. The theory relates wage rates to birth rates/population growth (rate) which is not the case in Uganda's labour market
3. According to the theory all workers should receive the same wage(rate) which is not the case in Uganda (where wages differ)
4. The theory does not consider the fact that the bare minimum need(s) varies from time to time depending on price levels, economic conditions, etc.
5. The theory is only applicable to the subsistence sector/in subsistence level of living but not to the commercialised sectors of Uganda's economy which use other considerations in wage determination
6. The theory does not put into consideration that trade unions influence wage determination
7. Contrary to (assertion of the) theory, employees worker harder when paid higher wages/do not work harder when paid (very) low wages

To a smaller extent the subsistence theory of wages is applicable in determining wages in Uganda because of the following reasons;

1. Causal workers/unskilled labourers are paid basing on the level of their subsistence needs
2. In the subsistence sector of Uganda rewards to workers is based on basic needs-hence applicability of the law
3. Employers in a bid to retain cheap labour tend to pay workers wages which re just enough to cater for their subsistence needs
4. Entrepreneurs due to profit maximisation goal pay workers wages which are just enough to meet their subsistence needs (only)
5. Employees due to high level of unemployment are willing to accept low wage rates as long as it covers their subsistence needs

6.

(a) Explain the functions of banking/financial institutions in Uganda	(08 Marks)
(b) Discuss the problems faced by banking/ financial institutions in Uganda	(12 Marks)

Answer:

(a) The functions of banking/financial institutions in Uganda

1. Accepting deposits
2. Advancing loans
3. Acting as custodians of their customers valuables (by providing strong-rooms)
4. Issuing various forms of credit instruments/providing easy means of payments such as cheques, drafts, credit and debit cards
5. Issuing letters of credit and acting as referees (to their clients)

6. Providing advice to investors (on possible investment choices)
7. Underwriting shares and debentures of companies as well as discount bills of exchange
8. Acting as trustees and executors of property and wills of their customers
9. Exchanging currencies of different countries

(b) the problems faced by banking/ financial institutions in Uganda

1. poor banking habits
2. high liquidity preference
3. poor infrastructure
4. corruption
5. high rate of inflation
6. political interference
7. high level of insecurity or political unrest
8. few credit worthy borrowers
9. limited collateral security
10. high operational costs
11. interference by the central bank in form of high bank rate
12. ignorance of people about banking services
13. stiff competition with other financial institutions especially microfinance institutions
14. political unrest or instabilities in some parts of the country
15. loan defaulting, forgery and money laundering
16. low incomes or low deposits
17. inadequate skilled manpower in the banking sector

7.

(a) Explain the features of an economic union	(06 Marks)
(b) Explain the factors that limit economic integration among LDCs	(14 Marks)

Answer:

(a) Features of an economic union

1. Free movement of goods and services/free trade within the union
2. Free movement of the factors of production
3. Common external tariff structure
4. Harmonised economic policies
5. Strong regional institutions
6. Use of common currency
7. Sharing of common services

(b) The factors that limit regional economic integration among LDCs

1. They produce similar goods/limited market
2. Fear of loss of customs revenue
3. Existence of political instability in some member states
4. Differences in the level of development
5. Fear of not gaining in integration
6. Differences in social factors e.g. culture, religion, language
7. Conflicts among leaders

8. Differences in currencies
9. Differences in political ideologies
10. External interference/sabotage
11. Poor infrastructure among countries
12. Differences in economic policies
13. Lack of political support/will/ignorance of people about the benefit of integration
14. Limited geographical proximity between countries
15. Differences in the size of the market/population

8.

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| (a) What is meant by a trade union? | (04 Marks) |
| (b) Discuss the challenges faced by trade unions in Uganda | (16 Marks) |

Answer:

(a) What trade union means

Trade union is an association of/an organisation formed by workers to collectively bargain for increased wages, improved working conditions of work, improved skills of members etc.

Types/forms include; industrial unions, craft union, white collar union, general trade union, closed/open trade unions

Examples include UNATU, MUASA, etc.

(b) Challenges faced by trade unions in Uganda

1. Limited funds
2. High level of unemployment
3. Limited leadership skills
4. Low level of accountability
5. Disunity of members/poor organisation of trade unions, i.e. organisation on the basis of tribe, religion, and political affiliation
6. Limited member skills
7. Limited membership/low level of unionisation
8. Low demand for products produced by members
9. Political interference (in union activities)
10. Poor economic performance, i.e. low productivity of firms
11. Poorly developed infrastructure /poor communication
12. Apathy/ignorance of workers of their rights
13. High proportion of wage bill to total assets
14. Existence of transitory incomes/availability of alternatives sources of incomes/limited commitment of members

9.

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|---|------------|
| (a) Given the quantity of money in an economy as shs. 6,000,000, its velocity of circulation as 20 and the number of transactions made are 1200. Calculate the general price level in the economy | (04 Marks) |
| (b) Explain the factors that limit the application of Irving Fisher's quantity theory of money to Uganda's economy | (16 Marks) |

Answer:

(a) To calculate the general price level:

$$PT = MV$$

Given $M = 6,000,000$; $V = 20$ and $T = 1200$

Therefore $(P \times 1200) = (6,000,000 \times 20)$

$$1200P = 120,000,000$$

$$P = 100,000$$

(b) The factors that limit the application of Irving Fisher's quantity theory of money to Uganda's Economy

1. Only attempts to explain changes in the value of money but not how the value of money is determined
2. There is no general price level but rather a series of price level
3. Ignores the influence of the rate of interest
4. Does not take into account the demand for money (only looks at money supply)
5. An increase in money supply may result into higher savings if the MPS is high; this reduces the velocity of circulation and price may fall
6. If a country has many unemployed resources, the increase in money supply leads to increase in output of goods and services which make prices fall or not change at all
7. Haggling between buyers and sellers to reach an agreeable price is not taken into account
8. Government control of prices is not covered by the theory
9. Does not take into account other causes of price increases/inflation e.g. cost push, demand pull
10. Just a truism—merely shows that M , V , P and T are related
11. Ignores barter trade
12. Considers only the transactions motive for holding money and ignores the precautionary and speculative motives
13. The four variables M , V , P and T are not independent of one another because a change in one induces change in others
14. The theory assumes that velocity of circulation (V) and the level of transaction (T) are constant and this is not the case in real life

10.

(a) What is the rationale for taxation in Uganda?	(10 Marks)
(b) Explain the problems limiting the tax potential in Uganda	(10 Marks)

Answer:

(a) The rationale for taxation in Uganda:

1. To raise government revenue
2. To promote fair income distribution
3. To control inflation
4. To improve BOP position
5. To influence proper resource allocation

6. To stimulate economic growth
7. To protect domestic firms from unfair completion by foreign industries
8. To discourage production and consumption of demerit goods
9. To control monopoly powers
10. To mean of forced savings
11. To encourage hard work and initiative

(b) The problems limiting the tax potential in Uganda:

1. High level of tax evasion
2. Low taxable capacity
3. Shortage of skilled manpower
4. Poor infrastructure
5. High rate of corruption
6. Political instability in some parts of the country
7. Conflicting government objectives/policies
8. Political interference
9. Resistance from the public against tax payment
10. Difficulty in identifying taxable sources
11. Frequent changes in employment or contacts and residence (large informal sector)
12. High tax avoidance

11.

(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)

Answer:

(a) Currency revaluation is the deliberate government act of raising the value of the currency in terms of other currencies

Or

It is the legal or official increase of the external value of a currency

While

Currency undervaluation is the fixing of the value of the local currency by the monetary authority below the equilibrium exchange rate

(b) Why it is necessary for a country to devalue its currency

1. to increase the volume of exports
2. to increase foreign exchange earnings
3. to reduce importation by making them expensive
4. to correct BOP by increasing foreign exchange earnings and reduce the volume of imports
5. to increase foreign capital inflow
6. to increase economic growth rate
7. to reduce imported inflation

12.

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|---|------------|
| (a) Why may a government adopt restrictionist trade policies in an Economy? (10 Marks) | (10 Marks) |
| (b) Discuss the problems that may arise out of adopting restrictionist trade policies among developing countries (10 Marks) | (10 Marks) |

Answer:

(a) Why a government may adopt restrictionist trade policies in an economy

1. To protect local industries/producers
2. To reduce dependence on foreign goods/attain self-sufficiency
3. To encourage use of local resources
4. To guard against consumption of undesirable goods
5. To earn revenue through tariffs
6. To encourage formation of regional cooperation
7. To promote innovation at home
8. To minimise political influence from abroad
9. To promote employment at home
10. To improve the country's BOP position
11. To increase output hence economic growth
12. To control imported inflation
13. To support anti-dumping policy

(b) The problems that may arise out of adopting restrictionist trade policies among developing countries

1. Production of poor quality goods by inefficient local firms
2. High prices of goods in the domestic market
3. Rise of monopoly producers and their adverse effects
4. Infant industries fail to grow due to absence of competition
5. Limited variety of goods in the domestic market
6. Retaliation from trading partners
7. Loss of revenue from import duties
8. Increased government expenditure on subsidisation and enforcement of the policy
9. Encourages trade malpractices
10. Discourages private investment
11. Reduces volume and pace to free trade hence lowering the welfare of the consumers

13.

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|---|
| (a) Distinguish between labour saving technology and capital saving technology (04 Marks) |
| (b) Examine the consequences of adopting labour saving technology in Uganda. (16 Marks) |

Answer:

(a) Labour saving technology is a technique where more capital is used per unit of labour.

Or

It is a method where there is more proportionate use of capital relative to labour

while

Capital saving technology is a technique where more labour is used per unit of capital.

Or

It is a method where there is more proportionate use of labour relative to capital

(b) The Consequences of adopting labour saving technology in Uganda

Positive consequences of labour saving technology

1. It leads to high quality of output
2. Saves time and it is less tiresome
3. It minimises the size of the wage bill paid to labour
4. It improves the skills of workers hence increased labour efficiency
5. It results into technological development and transfer
6. It minimises/reduces labour unrests#
7. Facilitates better/optimum exploitation of resources
8. It encourages standardisation of output
9. It promotes employment in the long run due to expansion
10. It facilitates development of infrastructure
11. Economies of scale are enjoyed due to large scale production

Negative consequences of labour saving technology

1. It requires supply of highly skilled, technical and managerial personnel
2. It may lead to unemployment since it absorbs less labour
3. Mass production not suitable for small internal markets
4. Requires a lot of foreign exchange, which is scarce.
5. It facilitates over exploitation of the few natural resources leading to quick resource depletion
6. It is inappropriate in certain areas where human judgment is required for example, in coffee picking, a machine cannot help
7. The technique encourages wide income inequalities between individuals and among regions
8. It is usually associated with high social costs, e.g. noise, pollution etc
9. It discourages the development of local craftsmanship and innovation

14.

(a) Differentiate between public enterprises and private enterprises	(04 Marks)
(b) "Privatising public enterprises should be promoted if Uganda is to achieve faster rate of economic growth". Discuss	(16 Marks)

Answer:

(a) Public enterprises are businesses set up, owned and controlled by the government through an Act of Parliament

While

Private enterprises are firms or businesses which are established, owned, controlled and managed by individuals or a group of individuals

(b) Argument for privatisation of public enterprises

1. increases output, hence economic growth/increased resource utilisation
2. increases government revenue
3. widens consumer choices due to production of variety of goods and services
4. reduces expenditure by government
5. reduces dependence on imports due to increased local production
6. reduces corruption in the enterprises/promotes transparency
7. reduces bureaucratic tendencies
8. increases investment by foreigners who buy the enterprises/increases capital inflow
9. increases quality of output
10. increases innovations and inventions/technological advancement and technological transfer
11. improves the relationship among countries
12. increases job creation in the long run
13. improves the efficiency in resource allocation
14. improves skills of the workers
15. reduces inflation rate through increased production

Argument against privatisation of public enterprises

1. increases consumer exploitation e.g. high price/low quality output
2. unemployment results in the short run e.g. retrenchment
3. increases foreign control of the economy/suffer from foreign dependence
4. irrational exploitation of resources leading to environmental degradation/depletion of resources
5. reduces provision of essential/vital goods
6. increases price fluctuations
7. profit repatriation due to investment being in hands of foreigners
8. resentment of government by the public
9. losses are incurred due to undervaluation, high costs of advertising the enterprises etc.
10. wasteful competition/duplication of production
11. makes planning by government difficult
12. increases income disparity/regional imbalances
13. increases labour exploitation e.g. low wages, poor working conditions

15.

(a) What are the causes of income disparities in Uganda?	(10 Marks)
(b) Discuss the steps being taken to reduce income disparities in Uganda.	(10 Marks)

Answer:

(a) The causes of income disparities in Uganda

1. Variation in natural resource distribution
2. Differences in the level of education and skills
3. Differences in the quality of output produced
4. Differences in family/social/backgrounds
5. Differences in talents and other natural abilities
6. Differences in experience or seniority or responsibility
7. Differences in elasticity of labour supply
8. Differences in trade unions ability to bargain
9. Variation in employers' ability to pay
10. Discrimination in the (labour) market on the basis of gender, race etc.
11. Variation in accessibility to developed infrastructures
12. Differences in the nature of occupations and risks
13. Differences in the ability of individuals to bargain for income
14. Differences in the number of hours worked
15. Differences in the cost of living
16. Differences in access to credit or contracts
17. Differences in the degree(s) of political climate/state of security
18. Non-matching wage policy by the employers
19. Difference in allocation of resources in favour of certain regions/sectors politically

(b) The steps being taken to reduce income disparities in Uganda

1. Reforming the education system
2. Reforming land tenure systems
3. Introducing progressive tax
4. Improving infrastructure
5. Liberalising the economy
6. Decentralising the economy
7. Controlling population growth rate
8. Modernising agriculture
9. Diversifying the economy
10. Raising wages of low income groups/ensuring minimum wage legislation
11. Improving the investment climate
12. Encouraging provision of investment credit/providing affordable loans
13. Empowering disadvantaged groups
14. Increasing government expenditure to develop disadvantaged regions or groups/subsidizing the poor
15. Improving political climate
16. Encouraging development of small scale enterprises

16.

(a) Define the term foreign aid	(02 Marks)
(b) Assess the role of foreign aid in Uganda	(18 Marks)

Answer:

(a) Definition of foreign aid

Foreign aid is the transfer of resources/assistance from one country to another, either directly or through international agencies/bilateral or multilateral

(b) Assessing the role of foreign aid in Uganda

- Positive roles of foreign aid

1. Closing the savings – investment gap
2. Closing the foreign exchange gap
3. Fills the government revenue-expenditure gap/fills budgetary gap
4. Closing the technological gap/technological transfer
5. Fills the (skilled) manpower gap/enables the developing countries to get skilled labour (from other countries)
6. Alleviating the effects of catastrophes
7. Facilitating the development of infrastructure
8. Provision of employment
9. Strengthens international friendship/relations
10. Improves/increases local skills through training
11. Foreign aid in form of capital investment accelerates industrial growth/diversifies economies of developing countries
12. Facilitates the exploitation of idle resources/economic growth
13. Promotes political stability

- Negative roles of foreign aid

1. Balance of payments problems due to repayment obligations
2. Debt servicing sometimes denies the nationals essential goods and services/increased taxation
3. Unemployment due to automation/inappropriate aid
4. Worsens economic/political domination of donors over the recipients/neo-colonialism
5. It leads to repatriation of the countries resources/income and profit repatriation
6. Some foreign aid may be tied to unproductive/non-priority projects/sectors/areas
7. The aid bogs down initiative as the recipients constantly expect more aid/ people become lazy
8. In most cases, the aid is inadequate
9. It is inconsistent and thus distorts planning
10. It erodes social-cultural values in the recipient countries
11. Sometimes the pre-conditions set are disastrous e.g. SAPs
12. It encourages extravagant use of resources
13. It leads to inflation
14. It leads to brain drain i.e. aid in form of scholarships
15. Underutilisation of local resources

17.

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|--|------------|
| (a) Explain the uses of national income statistics in an economy. | (08 Marks) |
| (b) What are the factors that affect the level of national income in Uganda? | (12 Marks) |

Answer:

(a) The Uses of national income statistics in an economy

1. For economic analysis and planning/for research purposes
2. To show the level of development/ standard of living by way of per capita income

3. For accessing aid
4. For international comparison between countries
5. For comparison purposes over time in a country
6. To show income distribution/resource distribution
7. To show expenditure patterns within the country
8. To show the structure of the economy
9. To show the level of resource exploitation
10. To show the level of a country's dependence on other economies

(b) The factors that affect the level of national income in Uganda

1. The entrepreneurial ability/skills
2. The existing stock of capital
3. The techniques of production used
4. The labour skills
5. The level of infrastructural development
6. Market size/level of demand
7. Investment climate/availability of investments/incentives/government policy on taxation and subsidization
8. Land tenure system
9. The degree/level of price stability/rate of inflation
10. Political atmosphere/climate
11. Level of monetisation of the economy/size of the subsistence sector
12. The population growth rate
13. Level of savings
14. Level of accountability/corruption
15. The degree of conservatism
16. Attitude towards work
17. Availability and exploitation/utilisation of natural resources

18.

- (a) Differentiate between elasticity of demand and price elasticity of demand (04 Marks)
 (b) Explain the factors that influence price elasticity of demand in an economy (16 Marks)

Answer:

(a) Elasticity of demand is the measure of degree of responsiveness of quantity demanded due to change in the factors that influence demand for a commodity

While

Price elasticity of demand is measure of the degree of responsiveness due to change in the commodity's own price

(b) The factors that influence price elasticity of demand

1. Availability of substitutes
2. Proportion of income spent on a commodity
3. Habit forming commodities/addiction
4. Degree of necessity

5. Degree of postponing consumption
6. The number of uses of a commodity
7. The level of advertising of the commodity
8. Time period
9. Durability of a commodity
10. Price stability
11. Consumer's income
12. Joint demand
13. The level of ignorance
14. The level of convenience

19.

(a) State the theories of inflation	(04 Marks)
(b) Assess the effects of inflation in an economy.	(16 Marks)

Answer:

(a) Stating the theories of inflation

1. Demand - pull inflation is persistent increase in general price level arising from excessive aggregate demand over aggregate supply at full employment of resources
2. Cost - push inflation is the persistent increase in general price level due to persistent rise in the average cost of production
3. monetary inflation is one caused by an increase in money supply without corresponding increase in the supply of goods and services
4. imported inflation one that occurs as a result of importing goods and inputs from countries experiencing inflation
5. Bottleneck/scarcity/structural inflation is one that occurs as a result of rigidities in the supply of output in all sectors of the economy
6. Expectational inflation is one caused by a situation whereby suppliers of commodities in anticipation of increase in people's income, increase prices of their commodities
7. profit - push inflation is one arising from the desire by producers especially monopolists and oligopolists to increase prices of their products in order to obtain high profit margin

(b) Assessing the effects of inflation in an economy

Positive effects

1. Stimulates investment
2. Stimulates hard work
3. Results into increased tax revenue
4. Encourages innovations and creativity
5. More employment opportunities are encouraged/created
6. Promotes productivity/expansion of the economy hence economic growth
7. Increases resource utilization
8. Debtor gain

Negative effects of inflation

1. It leads to loss of confidence in the currency/government becomes unpopular
2. It worsens the balance of payment position
3. High costs of production may lead to reduced production
4. Discourages foreign and local investments / entrepreneurship
5. Encourages illegal activities e.g. corruption, smuggling, prostitution
6. It leads to low production and consumption of poor / low quality goods or inferior goods leading to low standards of living
7. Lending is discouraged as creditors stand to lose and again it distorts the interest rates.
8. Leads to unemployment as a result of close down of some firms.
9. Fixed income earners suffer because of the fall in the value of their incomes
10. It leads to uneven distribution of income
11. It promotes speculation
12. High inflation makes planning difficult
13. Leads to industrial unrest due to constant demand for wages
14. Constant loss of money value affects/discourages savings.

20.

- (a) Distinguish between perspective planning and comprehensive planning (04 Marks)
(b) What measures have been taken to improve economic development planning in Uganda? (16 Marks)

Answer:

1. Perspective planning is one whose targets and objectives are set and covered after a long period of time like 10 years or more

While

Comprehensive planning is one which covers all sectors of the economy

Measures that have been taken to improve economic development planning in Uganda

1. Raised sufficient funds
2. Ensured proper data collection
3. Promoted autonomy of the planning authorities/discouraged political interference in planning
4. Ensured government commitment in planning
5. Ensured efficiency of the planning machinery/provided skills to planner
6. Ensured peaceful/stable political atmosphere
7. Stabilised prices/fought/controlled inflation
8. Avoided over ambitious planning
9. Minimised/avoided/reduced dependence on foreign aid which has been inconsistency, inadequate, tied, etc.

10. Minimised/avoided dependence on nature
11. Developed infrastructure
12. Encouraged proper accountability
13. Sensitized the private sector on her role in planning

QUESTION INTERPRETATION AND ANSWER PRESENTATION TIPS BY PATRONS

1. Try to exhaust all the 16 topics of economics to be able to answer both papers P220/1 and P220/2
2. Section A questions require short and clear answers, don't explain in Section A
3. Diagrams/graphs must well be drawn and labelled.
4. Avoid a one-word answer e.g. unemployment.
5. Don't use a formula to define a term e.g. PED is $\frac{D\alpha}{\alpha} \times \frac{P}{DP}$
6. Don't use examples to define terms
7. Always start with and indicate the term you are defining e.g. 1 (don't say. This is.... You say dumping refers.....
8. Never define a term by giving another name of the term e.g. "a transformation curve is the opportunity cost curve".
9. When asked to distinguish or differentiate, just give the definitions of each terms but you MUST use a contrasting word like while, whereas. Never define one of the words and leave the other, you will get zero.
10. When stating a given law e.g. the law of variable proportions you must use the exact words as they were stated.
11. For calculations, always start by giving the formula followed by substitution/working and then the final answer.
12. Read through all the questions and make the right choices.
13. Avoid use of abbreviations and short symbols.
14. Present your point in the first sentence followed by a full stop. Next sentence should have the explanation.
15. Change in demand/supply (there are six questions).
16. Spell the technical words correctly e.g. trade multi practices instead of trade malpractices.
17. Avoid duplication of points e.g. level of education and level of skills.
18. Introductions and conclusions are not necessary in economics. (Don't define concepts just give points).
19. Try to make your handwriting easy to read.
20. Always be orderly and number all questions attempted correctly.
21. Keep in line with the tense which is used in the question. (Avoid speculative language e.g. if, may, will unnecessarily).
22. For "How" questions, begin your answer with "Through" or "By".
23. Define and "What is" are not the same, when told to define, just give the definition but for "What is" the candidate is expected to explain more.
24. Explain the procedure/stages, a candidate should put them in order e.g. price indices.
25. Assess/examine-give both positive and negative.
26. Consequences/impact/implications effects-give the positive and negative outcome.
27. "Discuss" at the beginning is one sided while "Discuss" at the end is two sided.
28. Account for/reasons for/why/rationale for, begin with "To".
29. Factors that determine/influence/affect, is two sided, factors that limit is one sided.
30. Master examination terms e.g. remedies, rationale etc.
31. Give as many points as you can, even if you are told to give "two".
32. Qualifiers especially in the structure of Uganda's economy e.g. industrial sector, informal sector.
33. You need a UNEB question bank.



End

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